FILE

MUNICIPAL STUDY REPORT

Executive Summary

Submitted to:

Department of Community and Cultural Affairs
Government of Prince Edward Island

Submitted by

Smith Green & Associates Inc.
126 Kent Street
Charlottetown, P.E.I.

In association with

The ARA Consulting Group
Halifax, N.S.

and

Kell Antoft
Halifax, N.S.

May, 1991

92-01516/

THE MUNICIPAL STUDY REPORT

EXECUTIVE SUMMARY

1. Background

The property tax, which is usually reserved to municipalities as their primary revenue source, was adopted as a provincial tax by the Province of Prince Edward Island when it assumed full responsibility for grade school education on PEI in 1972.

At about this same time the province undertook to revise the system of municipal grants which had been in effect for many years. The grants program was revised in 1975 in order to improve the ability of municipalities to meet their responsibilities for local services, with the 1975 program being revised in turn in 1986. Both the 1975 and 1986 programs had been strongly criticized by a number of municipalities and further modifications were introduced in 1989.

In the light of continuing protests about inequities in the present property tax and grants regime the Department of Community and Cultural Affairs elected to have it reviewed by an external agent. Through a competitive process the firm of Smith Green & Associates was selected to carry out the study.

2. Study Objectives

The study objectives, as stated in the terms of reference, are:

1. To identify and analyze the factors contributing to the perceived property tax inequities among the City, Towns, Communities and unincorporated areas of the province.

2. In particular, to address the perceived inequities between the main urban centres and the adjacent municipalities and/or unincorporated areas.

3. To develop options and recommend a plan of action which will effect the desired changes.

3. Study Scope

The scope of the study extended to all 88 municipalities in Prince Edward Island, including:

- the City of Charlottetown
- the Town of Summerside
- seven other towns incorporated under the Towns Act
- seventy-nine communities, authorized since 1950 under either the Village Services Act, the Community Improvement Act, or the Municipalities Act

The report describes the historical process of municipal development on PEI, including activities under the Town Act, the Village Service Act, the Community Improvement Act, and the current Municipalities Act, which has led to the current proliferation of municipalities in this province.

The terms of reference also included all components of the property tax and the municipal grants regime, namely:

- provincial property tax
- municipal property tax
- property assessment system
- municipal grants program

4. The Property Tax and Municipal Grants Regime

In introducing the provincial property tax the Province undertook to raise approximately the same amount of money as had been raised previously by local School Boards. Several years later the provincial property tax was extended to commercial as well as residential and other non-commercial properties, with appropriate adjustments to the provincial rates to conform to the original revenue objectives. The Province has also accepted the property assessment and tax collection functions in behalf of municipalities.

The various modifications to the Municipal Grants over the years has resulted in a present program which includes:

- an equalization component designed to compensate communities for deficiencies in the total assessment values

- compensation to municipalities which provide their own police services, amounting to $35 per capita for the City of Charlottetown and Town of Summerside, and $30 per capita for other municipalities which do so

- compensation of $8,500 per km for the City of Charlottetown and Town of Summerside, and $7,000 per km for the remaining towns, for the maintenance of non-designated local streets

- a Community Recreation Support Program (CRSP), offering from $10,000 to $15,000 to support existing community arenas, and a professional leadership grant of $5,000 for municipalities which engage professional recreation staff.

5. Factors in the Municipalities Environment Bearing on Equity Issues

Project research indicated that the major factor underlying perceived inequities in the present regime has been the organization of municipal government in the province, which has produced a number of undesirable effects.

Other environmental factors include:

- past failure to revise municipal boundaries to include new settlement within the three major urban areas

- weaknesses within the municipal level of government

- fragmentation and duplication of effort within the major urban areas, particularly in the capital region

- economic constraints on municipal efforts

- negative overtones within intergovernmental relations

6. Perceived Inequities

There is a widely held view that the present property tax and municipal grants regime does contain a number of inequities. These were identified at different levels by municipal spokespersons, and included:

- municipalities of Summerside, Charlottetown and Montague vis-a-vis their adjacent communities
- some adjacent communities v-a-v one another
- smaller towns v-a-v Summerside and Charlottetown
- the City and towns v-a-v the villages generally
- municipalities v-a-v unincorporated areas

Other perceptions of inequity, as described by municipal informants, centred on the following issues.

Provincial Property Tax

1. The province preempts, in part, the property tax as a general revenue source, although almost all other provinces have reserved this tax field to municipal government, in the case of properties within municipal boundaries.

2. The province collects the municipal-type property tax in municipalities where it does not provide municipal-type services.

3. The province levies a uniform rate across the province despite differences in levels of service provided to taxpayers in different municipalities.

4. Rate-payers in the major service centres (the City and Towns) are not only taxed to meet service demand generated by non-residents, but also to subsidize services provided to the latter by the province in their own communities.

5. Stacking provincial property tax onto the municipal levy places municipalities at a disadvantage in the competition for development vis-a-vis unincorporated areas.

Municipal Property Tax

6. Residents who secure tax advantages from locating in communities adjacent to the three major municipalities then capitalize on and generate increased demand for services in the latter, without contributing to municipal revenue.

7. As a result of differential treatment by the province, the adjacent communities to the core municipalities in the three major urban centres have acquired a tax rate advantage in attracting and retaining commercial development.

8. The present regime encourages ribbon development, to the disadvantage of both municipalities and the province.

Property Assessment

9. Spokespersons for the largest two municipalities held that the use of the market value approach is inequitable in that it imposes an added tax burden on their rate-payers, compared to ratepayers everywhere else in the province.

10. It was also contended that market value may be fair in the case of property owners who are in the active market, and thus gain from appreciated values, but that it unfairly increases the tax burden of those who are not in the market, including both home owners and operators of long established family type businesses.

11. Summerside presented a special case. Assessments in that town have been frozen at a constant level for the past two years, reflecting the slow market created by the closure of the Canadian Forces Base. This has cost the Town treasury a substantial revenue loss over that time, in that the Town had relied on the annual inflation adjustment to assessments to maintain a constant tax rate.

Municipal Grants Program

12. The designated grants for police and street maintenance are seen as inadequate in light of costs for these services.

13. Basing the equalization payments on average per capita provincial assessment, without consideration of minimum servicing requirements, was questioned by some as possibly inequitable.

14. Awarding higher unit payments for police and street maintenance to Summerside and Charlottetown vis-a-vis the remaining towns was considered by some as inequitable.

7. Results of Quantitative Analysis

- The provincial property tax has maintained a fairly constant ratio to educational costs since 1972, although the quantum difference has increased about four-fold.

- As an educational tax, the provincial property tax provides relatively much less value to rate-payers in the two major urban centres than in 1972, because of demographic changes.

- The ratio of municipal grants payments to property tax revenues has declined considerably over the fifteen years since the grants program was first revised in 1975.

- The provincial property tax rate does not appear to have as much impact on municipal rates as do competitive rates and relative tax burden available in adjacent municipalities.

- There has been considerable enhancement of the tax revenue potential of municipalities adjacent to the three major urban municipalities in recent years.

- There appears to be little relationship between tax burdens in municipalities and ability of rate-payers to pay, which is one of the key tests of tax equity.

- The street maintenance component of the present municipal grants program is insufficient to compensate the City and Towns for the burden of this service, in consideration that it is provided to all other municipalities by the Province.

- Similarly, the police services grant to municipalities is calculated on an inappropriate base.

8. Conclusions Regarding Perceptions of Inequity

Qualitative research and subsequent analysis of findings sustained a number of the foregoing perceptions, while others were found untenable.

The major source of real or apparent inequities identified within the present system lies in what we have described as the province's 'government by neighbourhood' approach to establishing municipal boundaries in the three major areas of the province.

The population in the three core municipalities is less than 26,000 while the population in the twenty-one suburban municipalities is about 30,000. The uneven distribution of commercial assessments, the wide variation in household incomes, and the unequal burden of providing urban type services which is borne by neighbouring rate-payers are the principal factors underlying inequities in the three core municipalities.

There were fewer perceptions of inequities identified in other municipalities vis-a-vis one another.

Re Property Tax

- The property tax is an appropriate tax field for the province in the case of PEI, in consideration of its assumption of educational costs, but the provincial property tax should also be considered in light of other municipal type services provided by the Province.

  As an educational tax alone, the provincial property tax has a significantly reduced value for the two municipalities which generate the most tax revenue, compared to the period when this tax source was adopted by the province.

- There in an inequity in the present provincial property tax in that a uniform tax rate is established by the province for all rate-payers, despite the fact that the province provides different services to rate-payers in different communities throughout the province.

- In the case of the two major urban areas, there is an evident inequity when legitimate municipal services have been continued as a service of the province to the newer municipalities while the core municipalities and the Town of Parkdale must provide those same services of local rate-payer expense.

Re Property Assessment System

- There is no apparent inequity in the property assessment function as presently carried out by the province, including the market value concept which drives it. The market value concept does produce special burdens for property owners in the Town of Summerside and the City of Charlottetown, but where values are market driven the system itself cannot be described as inequitable.

  Any apparent inequities arising out of the property assessment function can be dealt with through policy instruments available to both levels of government, including reduction of tax rates as property values rise, or special relief for special situations.

Re Municipal Grants Program

- There is an essential weakness, suggestive of inequity, in encompassing the two major centres of Summerside and Charlottetown within a program equally designed for large and small towns and other urban and rural municipalities. The larger centres have much greater service demands to meet, particularly in comparison with the functions mandated to communities.

  For this reason, there are intrinsic barriers to dealing with inequities in the present regime by attempting to do so entirely through the grants program.

- The present equalization formula, while simple to apply and understand, and equitable as far as it goes, is not sufficiently sensitive to minimum municipal service requirements.

- The designated grants component provides insufficient compensation to the major urban municipalities for the additional costs of street maintenance and police services, which are incurred in their role as regional service centres.

- The distinction in the treatment of rural villages and towns is difficult to sustain on grounds of equity, in that there is little real difference in the nature of many towns and villages, e.g. Alberton, O'Leary and Tignish; Kensington and St. Eleanor's; Borden, Crapaud and North Rustico.

9. Recommendations

In preparing recommendations the study team was mindful of the need to avoid remedies which would resolve problems of inequity in the urban areas at a cost of imposing burdens on the smaller rural communities.

In light of the evidence presented in Chapter 6, there is a clear need for significant change to the present situation. The present regime, incorporating the provincial and municipal

property tax, municipal grants, and provincial servicing policies, is inequitable, and this situation cannot be corrected simply by adjusting tax rates or the grants formula.

The problems of inequity are clearly caused by the multiplicity of communities in the three urban areas, and can only be resolved by a redefinition of boundaries in those areas to reflect the realities of settlement.

General

1. **The Province should immediately commit itself to an appropriate change in the municipal boundaries within the three major urban areas of the province (Summerside, Charlottetown, and Montague), to be established through a special examination which should be commissioned promptly.**

   The terms of reference of such an examination should be to examine all of the impacts of the present boundaries and municipal arrangements, including:

   - the financial impacts of present municipal government boundaries within what are essentially whole settlements, including losses to efficiency and effectiveness in the delivery of municipal services

   - the extent to which legitimate municipal costs have continued to be borne by the province rather than being transferred to municipalities in urban areas

   - possible barriers to the general welfare, including to economic and social development and comprehensive planning, created by the existing muncipal structure

   - the present status and condition of the municipal infrastructure in the three urban areas, and likely replacement requirements over the next 20 years

- the likely financial commitments which will have to be borne by the province for upgrading or replacing municipal infrastructure if the present boundaries arrangements are continued.

- principles underlying the creation of new municipalities for the greater Summerside and Charlottetown areas, within boundaries to be established by the study.

We do not envision any "take over" of neighbouring municipalities by the City of Charlottetown or the Town of Summerside, but rather the creation of new municipalities and new authorities, and the passing of old conventions and local practices which have outlived their usefulness.

In the case of the Town of Montague the situation can best be addressed by adjustments to existing boundaries to reflect the degree of urbanization which has taken place there, and to distinguish clearly between the area which will continue to be serviced by the province as opposed to the area where servicing responsibility will devolve to the town.

2. **The province should establish differential property tax rates for residents living in areas where it continues to provide municipal type services, compared to municipalities where such services are not provided by the province or are provided at municipal expense.**

   This can be achieved by eliminating or lessening the reduction in the provincial tax rate for residential property owners in communities and unincorporated area; alternatively, the province could eliminate the provincial non-commercial property tax in areas where the province does not provide municipal services.

3. **The Province should effect an immediate increase to one acre in the minimum lot size for residential development within unincorporated and other unserviced areas.**

Not only should there not be any property tax advantage for settlement in an unincorporated area, but there should be definite tax disadvantages. This is in view of the high risk of future demands upon the province for servicing at a later time, including for road paving which would not otherwise appear on the provincial roads program.

Given the space and services available in almost all municipalities of the province there is no justification for the province to incur servicing costs in behalf of home-owners who choose to build where services, paved roads, and highway access are not available.

4. **The Department of Community and Cultural Affairs should adopt a more assertive posture with respect to the administration of the Municipalities Act.** This would include:

- the designation of minimum services to be offered before a community can achieve recognition as a municipality

- the requirement for completion of a feasibility study before entertaining an application for recognition as a municipality

- a restructuring of existing municipalities according to types of services offered, and in accordance with the Classes to be suggested in Recommendation # 5 below.

- consideration of boundaries extension to an existing municipality where approval is being sought for a new municipality adjacent to one which has already been established.

- In addition to classifying municipalities according to Recommendation #5 below, the Department should undertake a periodic review of municipalities to determine whether or not they are exercising the powers granted to them by charter, and if their powers should be continued or revoked.

If the province elects not to proceed with Recommendation 1, then an alternative approach is required. We present here two options which address the problems of inequity in part, although leaving the core of the problem intact.

Either of the following options can be implemented quickly without calling for further study, except through an internal Task Group, using data and reports already available within various departments of government.

Option 1

5. **The Province should replace the present Municipal Grant Program with one which recognizes the substantial differences in the cost of providing basic municipal services in the provincial Capital and in the towns of Summerside and Montague, as compared to the smaller towns, villages, and rural communities.**

   We would suggest a three-tiered grant system based on the following classes of municipalities:

   Class 1. The City of Charlottetown, the Town of Summerside, and the Town of Montague

   Class 2. The remaining towns, and some of the present "villages"

   Class 3. The remaining villages, and some present "CICs"

   Villages which have a pro forma character only should be included among Class 3 municipalities. Communities which are not providing any municipal service should forego their charter and be considered in light of a rural area.

   An equalization grant formula should then be established for each Class, to be based on three components: actual expenditure levels on designated basic services, population density, and ability to pay as reflected in average per household assessment tax base. At present only the first and third of those components are in the PEI grants formula.

The expenditure levels for the Class 2 and 3 municipalities would be based on average expenditure per dwelling unit for a mix of selected services (police, streets, environmental health, recreation and cultural services, and general government), taking into account the costs required to provide those services to an acceptable standard.

The standard, as in the current Nova Scotia municipal grants program, would be based on a periodic review of actual expenditures in selected municipalities, using a standardized chart of accounts mandatory upon all municipalities. The municipalities selected to provide the base data for the provincial standards would be those which are considered by the province to be providing basic services at an acceptable level.

The Province would not provide any municipal services within the Class 2 municipalities. The grants system would provide for the gradual transition to the Class 2 municipalities of all municipal service costs now being borne by the Province.

In addition, the municipal grants would be linked to service levels and performance; thus those municipalities which do not provide one or more of the basic services which are used to establish the grants formula would not have such services included in the calculation for their equalization payment.

Because there are only three municipalities in Class 1 the municipal grants for this Class could not be based on standard expenditures. In those cases the municipal grants would be based on the added costs to those communities of providing services as regional service centres, in excess of the normal per household costs to meet local needs. These would be primarily in the areas of police services, street maintenance, and environmental and health services.

6. **The Province should commit itself to the municipal grants program through legislation rather than through budget policy.**

This would be done through enshrining a new grants formula in law, and by committing a minimum percent of provincial property tax revenue to the grants program each year.

This linkage of the property tax and grants program would help dispel the notion of "double taxation" by making clear the purpose of the tax in relation to property services. It would also discourage any future inclination to use the regressive property tax for general revenue purpose, in that increased property tax revenues would have to be shared with the municipalities.

Option 2

Option 2 is the most simple to implement, but while it addresses inequities affecting the three major urban municipalities it leaves others in place.

7. **Failing the adoption of a new municipal grants program as recommended above, the designated grants for the City and Towns under the present program should be revised to reflect more realistic costing.**

The police services grant to the three major municipalities should be based on the average per capita costs of policing the entire province, including those municipalities in the calculation. In the remaining municipalities which are eligible for this grant, it should be based on the per capita costs cited in the provincial RCMP services contract.

In the case of the street maintenance component, the grant to Summerside and Charlottetown should be based on the average cost to the province of its entire highways rehabilitation and maintenance functions rather than maintenance costs only. The rationale for selecting only those two municipalities for special treatment is that their non-designated streets get greater non-resident usage than in the case of the remaining towns.

8. **In addition to adjusting the designated grants, the Province should begin to phase out of the present policy of providing street maintenance and police services to municipalities in a newly defined Greater Charlottetown and Greater Summerside areas, this to be completed over a five year period.**

The communities from which provincial services would be withdrawn would then be eligible for police and street maintenance grants, as in Recommendation 7 above.

We have not undertaken to define the outer boundaries for the Greater Charlottetown and Greater Summerside areas for purposes of the foregoing. This would be determined through further work internally within the Department, based on ability to pay, by comparison with the towns.

FILE

MUNICIPAL STUDY REPORT

Submitted to:

Department of Community and Cultural Affairs
Government of Prince Edward Island

Submitted by

Smith Green & Associates Inc.
126 Kent Street
Charlottetown, P.E.I.

In association with

The ARA Consulting Group
Halifax, N.S.

and

Kell Antoft
Halifax, N.S.

May, 1991

TABLE OF CONTENTS

		Page
1.0	INTRODUCTION	1
1.1	Background	1
1.2	Study Objectives	2
1.3	The Concept of Equity	3
1.4	Scope of the Study	5
1.5	Methodology	5
1.5	Structure of the Report	6
2.0	MUNICIPAL GOVERNMENT ON PEI: AN HISTORICAL PERSPECTIVE	7
2.1	General	7
2.2	First Phase: Incorporation of the Capital and the Towns	7
2.3	Second Phase: Incorporation of Villages	8
2.4	Third Phase: Community Council Formation	9
2.5	Fourth Phase: Consolidation/Rationalization	10
2.6	Overview	12
3.0	THE PROPERTY TAX AND MUNICIPAL GRANTS REGIME	13
3.1	General	13
3.2	The Property Tax	13
3.3	The Provincial Property Tax on PEI	14
3.4	Municipal Property Tax	16
3.5	Property Assessment as a Government Function	17
3.6	The Municipal Grants Program	20
4.0	FACTORS IN THE MUNICIPAL ENVIRONMENT	23
4.1	General	23
4.2	The New Settlement Factor	23
4.3	Weaknesses Within Municipal Government	26
4.4	Fragmentation and Duplication of Effort	28
4.5	Economic Constraints	29
4.6	Inter-governmental Relations	29
5.0	PERCEIVED INEQUITIES - QUALITATIVE ASSESSMENT	31
5.1	General	31
5.2	Provincial Property Tax	33
5.3	Municipal Property Tax	35
5.4	Property Assessment	36
5.5	The Municipal Grants Program	38

6.0 QUANTITATIVE FINDINGS 40

6.1 Property Tax 40
6.2 Impact of Provincial Tax on Municipal Rates 45
6.3 Municipal Grants Program 51

7.0 ANALYSIS OF FINDINGS 56

7.1 General 56
7.2 The Property Tax 57
7.3 The Provincial Property Tax 58
7.4 Municipal Property Tax 62
7.5 Property Assessment Function 64
7.6 The Municipal Grants Program 66

8.0 CONCLUSIONS AND RECOMMENDATIONS 69

8.1 Conclusions 69
8.2 Recommendations 73

APPENDIX 1: 1990 MUNICIPAL PROPERTY TAX RATES

APPENDIX 2: COMPARATIVE TAX BURDENS, PEI MUNICIPALITIES

APPENDIX 3: LIST OF PERSONS INTERVIEWED

GLOSSARY

For purposes of this report, the terms "municipalty" and "community" are used as in the Municipalities Act.

In effect, "community" means areas incorporated under the former Village Service Act and Community Improvement Act and also under comparable sections of the Municipalities Act.

"Municipality" then means a city, town or community.

Thus, for example, Wilmot may be referred to as either a community or municipality, depending on the context, whereas the Town of Summerside may be referred to only as a municipality; similarly with Sherwood, as compared to the Town of Parkdale.

On occasion we have made reference to communities by their former designation as either "village" or "CIC" where it was necessary in context to distinguish between types of community.

1.0 INTRODUCTION

1.1 Background

In 1975 the Government of Prince Edward Island adopted a new system of grants to assist municipalities in providirg basic services to their residents. The program introduced a new equalization formula, while continuing the per capita payments approach as in a previous program. The main purpose of the change was to ensure greater equity among municipalities, with particular attention to the situation of Summerside and Charlottetown, whose per capita expenditures on services were considerably greater than those of the smaller towns and villages.

The 1975 Report which introduced the new grant program defined two important tests of equity that were intended to be met by the new system:

- The first test was that units with lower taxable capacity should receive some form of supplementary assistance in order to permit them to provide a basic level of service.

- The second test was that the amount of the grant should relate in some way to expenditure responsibilities.[1]

These dual tests were central to a number of subsequent reviews of the grants program. The first of these reviews, in the fall of 1976, emphasized the principle that expenditures for municipal services should be the major consideration in determining grant ratios among different levels of municipalities.[2] Accordingly, the ratio of the equalization grant was changed to recognize the higher expenditure levels required in Summerside and Charlottetown.

---

[1] Touche Ross & Co., An Effective Municipal Grants Program for the Future. Toronto, 1975, p. 38.

[2] Touche Ross & Co., An Evaluation of the Municipal Grants System. Toronto: October 1976, p. 28.

Additional reviews were carried out during the next decade by officials within the provincial administration, usually in consultation with representatives from the Federation of Prince Edward Island Municipalities. These internal studies eventually culminated in the adoption of the present Municipal Grants Program in 1986. That program was generally well received by most of the municipalities, but the City of Charlottetown, the Town of Summerside, and several other towns have continued to protest that it does not fairly recognize the higher expenditures required to meet their service obligations.

During 1990 the Department of Community and Cultural Affairs elected to examine the issue of perceived inequities concerning the total property tax and municipal grants system, and issued a call for proposals to conduct an external review.

In November, 1990, a contract was awarded to **Smith Green & Associates Inc.** to undertake the study, in association with **The ARA Group Inc.** of Halifax, and **MacIsaac and Younker**, Chartered Accountants, Charlottetown. Mr. Kell Antoft of Halifax, specialist in municipal government affairs, was also a member of the project team.

1.2 Study Objectives

The study objectives, as stated in the terms of reference, are:

1. To identify and analyze the factors contributing to the perceived property tax inequities among the City, Towns, Communities and unincorporated areas of the province.

2. In particular, to address the perceived inequities between the main urban centres and the adjacent municipalities and/or unincorporated areas.

3. To develop options and recommend a plan of action which will effect the desired changes.

1.3 The Concept of Equity

The term "equity" is most commonly used with reference to a particular form of jurisprudence, or with reference to equal and impartial justice as between two parties whose rights or claims are in conflict.

In this report, however, it is being used in its most general sense as referring to the degree of just-ness, or fairness, and right dealing in arrangements between corporate bodies and individuals, or more specifically, between governments and citizens. In this sense, equity is determined by the extent to which the principles of natural justice regulate human affairs, in both the private and the corporate domains.

Equity presents problems in realization because, as a general concept, it relies very much on the individual conscience to decide what is right and fair. In tax matters, equity relies on the judgement and sense of fair play on the part of the taxing powers rather than on the judgement of some neutral jurist.

Although the Province did not establish equity as an underlying value for either the property tax or municipal grants program, it is simply accepted that within a parliamentary system all governments must pursue the greatest possible measure of equity in its treatment of its citizens. Not only must Governments act fairly, but they must be seen to act fairly. This concept is implicit in the terms of reference for this project, which include both apparent and real inequities in their scope.

There are a number of commonly accepted guidelines which have developed over time to guide government in pursuit of tax equity. These include that a tax should be fair, easy to predict, easy to collect, and difficult to evade. It is also a principle in taxation that there should be the closest possible ties between those who are taxed and those who are doing the taxing. These principles were well expressed in a recent edition of The Economist:

". . . . . the more that local government can rely upon its own tax base, the better. Indeed, the best local tax would be one chosen and raised by each Council as it saw fit, to cover what

its voters had elected it to spend. But that ideal runs straight into the fact that some areas of the country are richer than others, and they tend to be places that need less spending anyway.

For this reason local taxes will always be seen as part of the national tax structure. They should therefore be consistent with the philosophy that underpins the income tax: the more you have, the more you pay, leaving the poorest to pay little or nothing;"[3]

Johannes Messner described the principle of equity in taxation as involving: ability to pay, certainty, convenience, and cheapness. He wrote that the "apportionment of the tax burden corresponding to taxable capacity of individuals is . . . most completely attainable by a combination of taxes on income, property and expenditures."[4]

No author has provided an absolute test for equity or inequity in tax matters. It becomes particularly difficult at the municipal level, where tax rates may vary because of differences in the range of services which the tax may cover. In trying to assist municipalities in meeting the cost of services a central government could sometimes find itself under-writing largesse, or in other cases compensating municipalities for an insufficient local tax effort. Equalization programs to assist municipalities present real challenges in design.

In addressing the terms of reference the test we shall apply is the perceptions of reasonable persons, that is, those selected by their peers to direct affairs in their communities. Although there may be some bias in their views, we believe these will be balanced by the range and variety of persons interviewed, as well as by the discretion and judgement of the experienced project team, itself guided by the Steering Committee. While this array of talent may err, we must consider that the totality of its perceptions represents as competent a judgement on the study issues as is likely to be found in the province.

---

[3] Editorial, The Economist, Vol 318, No. 7695. February 23, 1991. Page 17.

[4] Messner, Johannes. Social Ethics. St. Louis, B. Herder Book Co. 1949 and 1965. Page 690.

1.4 Scope of the Study

The scope of the study extended to an analysis of all 88 municipalities in Prince Edward Island, including:

- the city of Charlottetown
- the Town of Summerside
- seven other towns, incorporated under the Towns Act
- seventy-nine communities, authorized since 1950 under either the Village Service Act, the Community Improvement Act, or the Municipalities Act

On the basis of a discussion with the Steering Committee, the data collected included quantitative data on all municipalities. The qualitative assessment then focused on the towns and a representative number of communities.

The study examined the entire property tax and municipal grants regime, including the following components:

1) provincial property tax
2) municipal property tax
3) property assessment system
4) municipal grants program.

1.5 Methodology

The study was conducted in three phases, broadly described as:

Phase 1: Information and Data Collection

Phase 2: Analysis of Perceived Inequities

Phase 3: Preparation of Report and Plan of Action

The purpose of the Phase 1 activities was to establish a context for the study, to determine the potential sources of data, and to prepare a research plan for the approval of the Steering Committee.

In Phase 2, the methodology used in addressing the issues in the terms of reference included the following elements:

- quantitative base comparison for all 88 municipalities
- document review
- comparisons with other provinces
- key informant interviews with provincial government representatives
- qualitative interviews with representatives of municipalities
- information exchange session with the Executive Board of PEI Federation of Municipalities

In Phase 3, research findings were analyzed and draft reports were submitted to the Steering Committee. Its comments were incorporated in the preparation of this final report.

1.6 Structure of the Report

In preparing this report the Project Team has been mindful of a commitment by the Minister of Community and Cultural Affairs to make the report available to municipalities. Because the number of potential readers will vary greatly in their knowledge and understanding of the present system, we have provided additional background information for the benefit of those readers.

In that light, Section 2 presents a brief historical perspective of municipal government on Prince Edward Island and Section 3 provides background information on the property tax, property assessment, and municipal grants functions.

Section 4 then examines a number of factors in the municipal government environment which have a bearing on resolution of the study issues. Sections 5 and 6 present the findings from the qualitative and the quantitative research respectively, and Section 7 provides our analysis of those findings.

Section 8 contains conclusions and a recommended plan of action.

2.0 MUNICIPAL GOVERNMENT ON PEI: AN HISTORICAL PERSPECTIVE

2.1 General

An understanding of the process of development of municipal government on Prince Edward Island is important to a full appreciation of the study issues.

Four phases can be recognized in this process, three of which can be described as formative phases, with the fourth now on-going, being in the nature of a rationalization phase.

2.2 First Phase: Incorporation of the Capital and the Towns

The incorporation of the capital city and towns on Prince Edward Island occurred in three stages.

1. In 1855, about eight-five years after it was established as the seat of government for the new British colony, the capital city of Charlottetown was incorporated by the Prince Edward Island Legislative Assembly through The City of Charlottetown Act.

2. During this same period Summerside had been developing as the principal commercial centre for the western part of the Island, and in effect had replaced Princetown as the designated "capital" of Prince County. By the 1870s the need was apparent for the introduction of municipal services and that settlement undertook to achieve incorporation, as in the case of Charlottetown. Finding existing legislative provisions too restrictive, the town succeeded in gaining its own Town of Summerside Act in 1877.

3. Recognizing that the growth of new communities throughout the Island would inevitably create a demand for local servicing, the Legislative Assembly had earlier provided authority for the creation of municipal governments. The Town Act of 1870 enabled the Government of the Province to authorize communities to incorporate for the purpose of providing specified local services and to levy taxes in order to pay for them.

Because of a number of significant social and economic changes affecting PEI, along with a strong suspicion that local government would mean additional taxation, there was very slow movement by communities towards town status. Thus no community applied for incorporation under the Town Act until Souris did so in 1910, but by 1920 five others had followed the its example. These were: Alberton (1913), Kensington (1914), and Borden (1919) in Prince County: and Georgetown (1912) and Montague (1917) in Kings County.

Parkdale, which had been incorporated as a village in the early 1950's, became a town in 1973.

The incorporation of the towns provided the basic framework for municipal government on PEI. In each case incorporation reflected the extent to which settlement had already occurred, as well as a recognition of the need for an orderly approach to local services and growth in anticipation of future development.

2.3 Second Phase: Incorporation of Villages

By 1950, more than thirty years after the last town had become incorporated, major social changes were occurring on PEI which were to have an impact on the life of rural communities.

Factors driving this change included:

- new quality of life expectations resulting from the wartime experiences of many Island residents, particularly on the part of war veterans

- the post-war economic boom and new expectations regarding government services, following the socially devastating experiences of the pre-war depression years

- the dramatic increase in the use and ownership of motor vehicles, which was encouraged by the expansion in the supply of all-weather roads, with their impact on decisions regarding residential and commercial location

- concentration of economic development and industrial production in urban areas of the province, which had been facilitated on PEI by improved transportation.

All of these factors contributed in various ways to changes in life styles within rural areas of the province. In the new dynamic situation of population growth and mobility, the public was expected to make greater demands on smaller rural communities to provide local services. Since the Town Act appeared to have run its course, the Provincial Legislative Assembly authorized an alternative form of municipal government through the Village Service Act of 1950.

Crapaud was the first of fifteen Island villages to incorporate under the new Act during the 1950s; during the 1960s eight more villages were approved, and six more during the 1970s. The thirtieth and most recent, West Royalty, was added in 1980.

With the possible exception of those adjacent to the three main municipalities, each of the newly incorporated villages reflected the historic pattern of settlement on PEI. Along with the towns, these villages had catered to the commercial, social, cultural, educational, and economic needs of rural residents of the Province for many decades, and had satisfied the need for community on the part of the Island people. For this reason there has been a strong and continuing loyalty to them, particularly on the part of the rural population.

2.4 Third Phase: Formation of Community Councils

By the late 1960s it had become apparent that the Village Service Act was itself proving inadequate for the emerging needs of the Province's rural areas, which had also been attracting some share of new development. For example, the desire for fire protection in rural areas had brought about the formation of volunteer fire brigades under the Fire Prevention Act, but their dependence on voluntary payment of fire protection fees made their work both difficult and uncertain.

In addition, the random spread of residential and commercial development into rural areas brought with it new requirements for local services, sometimes accompanied by intense concern on the part of long-established residents over taxes and controls. Since Prince Edward Island had never undertaken to establish a system of county government, there was no provision on PEI for local services in very small communities and rural areas.

To fill this void the Legislative Assembly enacted the Community Improvement Act in 1967, which authorized communities or groups of communities to establish Community Improvement Councils (CICs). These were empowered to provide a much more limited number of municipal services than in the case of towns and villages, chiefly fire protection, garbage collection and disposal, street lighting, and general administration.

For several years there was very little public interest in this new Act. However, when the School Act of 1971 eliminated over 360 School Districts in the province it also eliminated the legally constituted bodies which had served as focal points for community projects for as much as one hundred years. To help maintain and even reinforce a sense of local community after school consolidation, the Department of Community Services undertook to encourage and assist in the formation of new CICs.

Between 1972 and 1976, thirty-one CICs were formed as a result of these efforts; this activity has continued, and at present there are forty-nine such municipal units in the province, with several others now in various stages of the approval process.

2.5 Fourth Phase: Consolidation/Rationalization

Over the past 40 years the major commercial, social, economic, recreational, educational, and cultural activities of the Island people have progressively transferred from local communities to the Province's three major settlements; that is, to the Summerside, Charlottetown and, to a lesser extent, Montague areas.

Thus while the province was going through the conventional political and legal processes of municipal formation, an equally important social process was at work: population growth was occurring in the three major population centres to an extent which quickly outstripped their formal boundaries. In contrast to urban growth centres elsewhere in Canada, this development on PEI did not result in an adjustment to the boundaries of the established municipalities to accommodate the new settlement. Instead, the province approved the formation of new municipalities, generally following the boundaries of the historic school districts.

The result has been a proliferation of municipalities on the basis of boundaries designed for the needs of a school age population of yesteryear, using the legislative framework ostensibly designed to accommodate communities in a rural setting. Such boundaries obviously do not reflect the realities of the present day. The Report of the Royal Commission on the Land has recently identified this as one of the major current issues in municipal government on PEI, requiring almost immediate attention.

Until 1983 all Island municipalities other than Charlottetown and Summerside derived their authority from one or other of four statutory instruments: the Town Act, the Village Service Act, the Community Improvement Act, and the Municipal Boundaries Act.

In 1983 the Province elected to consolidate all of these statutes within a new Municipalities Act. Among other things the new Act provided a greater measure of consistency in the provisions governing local administration, but continued the authority of the various types of municipality as in the original legislation.

The new Act carries forward the prohibition against changes in municipal boundaries, except on the application of the residents affected. It did not address the proliferation of municipalities under the previous legislation nor did it provide encouragement or incentives for the amalgamation of adjoining municipalities, or for any form of consolidation of municipal services. The Act does not provide minimum population or services criteria for recognition as a municipality.

2.6 Overview

The history of municipal development on PEI has reflected a strong sense of local identity on t part of the Island people. Where towns and villages did not exist for this purposes, school districts served in their place. When local school districts were eliminated there was an impetus to incorporate new local bodies under the Community Improvement Act.

There now exists in the Province of Prince Edward Island a total of 88 incorporated municipalities[3], including:

- the City of Charlottetown
- the Town of Summerside
- seven other towns
- thirty villages (now called communities)
- forty-nine CICs (also called communities)

As the population moved into urban areas following social and economic trends after World War II, they created new urban communities which replicated in various ways the sense of rural community they left behind. In due course these became incorporated as (village) municipalities. In establishing what is in effect **government by neighbourhood**, Prince Edward Island began the process of creating a situation in which inequities between adjacent municipalities may be practically unavoidable.

For this reason, in examining the study issues we have also considered the extent to which inequities may not be intrinsic to the system but instead may result from the municipal government on PEI.

---

[3] According to the 1986 Census, these 88 municipalities contain a population of approximately 87,574 persons, averaging fewer than one thousand residents per community. Less the City of Charlottetown and the Town of Summerside, the total for the remaining 86 municipalities is 63,778 residents, averaging less than 740 per community.

3.0 THE PROPERTY TAX AND MUNICIPAL GRANTS REGIME

3.1 General

The scope of this study embraces four components with which equity issues might be identified:

- the provincial property tax
- the municipal property tax
- the property assessment function
- the municipal grants program

This chapter will present background information on each of these in order to facilitate analysis of study issues. The report will follow the foregoing format throughout.

3.2 The Property Tax

Among all sources of government revenue, the property tax has perhaps been the most frequently criticized on the grounds of the generally accepted tax principles of uniformity, universality, and equity. As a means of raising public revenue, however, the property tax has survived a long time. Although its origins are from an age when ownership of goods rather than currency was a measure of material wealth it has survived into the post-industrial age, for practical rather than philosophical reasons.

Richard Netzer, a leading authority on property tax, suggests a few reasons for this:

"The tax exists, it produces very large revenues, and our society and economy have adjusted to and worked through many of the baleful effects of the tax, at least at present levels of property taxation."[4]

---

[4] Dick Netzer, "An Appraisal of the Property Tax" reprinted in Public Finance in Canada (2nd ed.) edited by A.J. Robinson and James Cutt (Toronto: Methuen, 1973) page 353.

An important reason for the durability of the property tax has to do with the relatively light weight of the tax burden which it imposes. When the burden is modest, there is only moderate concern for possible inequity; but when a provincial rate is added to the municipal rate, or when the burden in a given municipality increases to the point where differences with neighbouring municipalities become very apparent, the property tax becomes more contentious.

Traditionally, the property tax was imposed by municipalities as a means of providing services in respect of property, including streets, sidewalks, fire protection, utilities, street lighting. Grade school education was also funded by local government, through either a property tax or a special education tax. To a lesser extent municipal expenditures also extended to community welfare services, more recently including recreation, libraries and other cultural facilities, and economic development and promotions.

3.3 The Provincial Property Tax on PEI

The Real Property Tax Act contains authority for the levying of property tax in Prince Edward Island. Both the Province and municipalities may levy this tax, but the Act establishes the Province as the single authority for its collection, both on its own behalf and in behalf of municipalities. Valuation or assessment of property for property tax purposes is also a provincial responsibility, under the Real Property Assessment Act.

The Province entered the property tax field on PEI in 1972 when it assumed full responsibility for the cost of primary and secondary education. Education had been funded in part through property taxes imposed by Boards of Trustees in local School Districts, and this tax revenue source would ordinarily have been vacated with the elimination of the School Districts. In accepting full responsibility for education the Provincial Government elected to continue partial funding of this service through the property tax, henceforth as a provincial tax.

The implementation of the school consolidation program in 1972 had been controversial in the case of Charlottetown and Summerside, whose educational programs were well developed and whose school plants were in place by that time. School Boards in those municipalities vociferously opposed the change because they foresaw that progress in education within their boundaries would come to a standstill for many years while other areas of the province were catching up. However, when the school decision was made there was not a similar reaction to the Province's related decision to enter a tax field which had hitherto been exclusively a revenue source for local government.[7]

The provincial property tax was originally set at a rate which would deliver tax revenue approximately equal to what property owners had contributed, in total, to education costs prior to 1972. Between 1972 and 1976 a uniform provincial property tax was imposed; the province also imposed a business tax on commercial operations.

In 1976 the business tax was eliminated and a differential property tax rate was adopted, with the commercial rate being set by the Province at twice the non-commercial levy.[8]

The rate differential for non-commercial property was in effect until 1987, when it was increased to the commercial rate of $1.50; however, a 50% tax credit was extended to resident owners of non-commercial properties, along with an additional $0.10 credit for residential properties. This adjustment was in consideration of the fact that resident owners make other tax contributions, including income, sales and excise taxes, to help meet the cost of public services, which non-residents do not pay in like measure. The tax rate to non-resident owners has been justified by the Province on that basis.

---

[7] This was probably because all municipalities were at the same time being relieved of the ever-increasing burden of educational costs.

[8] The 1972 provincial rate for non-commercial properties was $1.25, later reduced to $1.00; in the late 1970s the effective rate was set at $0.75, with a further reduction to $0.65 for non-commercial properties classed as residences.

Thus the provincial property tax now relates to both educational and property services costs'. For this reason we believe that one of the study issues must be the extent to which provincial property tax revenue is being devoted to services to property owners in proportion to their contribution.

3.4 Municipal Property Tax

Property taxes in Canada are primarily a municipal tax. Except for the provinces of New Brunswick and Prince Edward Island, all provinces in Canada limit provincial property taxes to regions of their provinces which do not have municipal government.

Property taxes may vary greatly among municipalities, not only because property assessments and tax rates vary but also because the same tax base may be used by different municipalities to raise money for widely varied service packages. In addition, some services which are paid from property tax revenues in one community may be funded by specific levies or fees in others. This is the case on Prince Edward Island.

The Royal Commission on the Land report indicated that the most frequent complaint voiced in its public hearings concerned "the competition and rivalries generated among municipalities and between municipalities and unincorporated areas because of the existing property tax regime".[10]

Tax variations in themselves do not necessarily indicate inequity, in that they may also reflect a difference in services provided by local municipalities. If however they are influenced by differences in the treatment of local municipalities by the Province, there is a possibility of inequity.

---

[9] The Department of Finance disagrees with this interpretation. The position of the Department is that the provincial property tax was imposed to help meet the costs of school consolidation, that such costs are on-going, and that the property tax continues to be collected for that purpose. We shall comment on this interpretation in Chapter 7.

[10] Royal Commission on the Land, Everything Before Us Vol. 1. Charlottetown, Queens Printer, 1990, p. 498.

Property Taxation and Urban Demographic Trends

High tax rates in urban areas, high property values, and the commercialization of formerly residential areas all combine to suppress population growth. Population decline in a city does not necessarily result in a corresponding decline in residential servicing costs; this is partly because once in place, hard services have little operational cost flexibility. The movement to suburbs tends to "cream off" residents who are better able to pay for the municipal services they need. Those who remain include the poor and the elderly, who tend to require high cost service while being able to contribute least towards the cost of providing them.

Competition for Commercial Development

Suburbanization intensifies competition among municipalities for other than residential development. Because increases in commercial assessment generally result in net benefits to municipal revenues, and hence reduced tax burdens for home owners, there is considerable inter-municipal competition for industrial and commercial development. The "winners" in this rivalry are the municipalities who have success in attracting business and who can offer a much lower tax rate to their residential ratepayers.

The issue for this study is the extent to which provincial government policies may have an impact on the competition among municipalities for residential and commercial development. There is now a concern on the part of the major municipalities that provincial government policies are not neutral in this respect.

3.5 Property Assessment as a Government Function

In the late 1960s, in anticipation of the school consolidation program, the PEI Government began to prepare the base for a uniform system of land assessment. Prior to that time the execution of this function throughout the province had been relatively capricious. Assessments were quite judgemental, and most School Districts had not completed re-assessments for many

years -- ten years in the case of Charlottetown, and as far back as 1935 for some of the rural communities.

To prepare for the new system a new automated land registration program was implemented in the Province, and a property assessment function was added to the Department of Finance. The new Director of Property Assessment acquired assessment rolls from the more than 360 School Districts and three years were spent in establishing a base value for all properties for purposes of the new school program.

Property Assessment

For assessment purposes, property is classed as either commercial, non-commercial or farm realty. Municipalities may set tax rates according to the classification, and it is common that higher rates are set for commercial than for non-commercial property.[11] Current municipal rates on PEI are listed in Appendix 1.

Current market value estimation is accepted as the common yardstick in striving for objectivity and uniformity in property assessment for taxation purposes in a given area. But the market is not necessarily uniform from one municipality to another. Houses in an urban area are likely to have a higher market value than similar houses in a rural community. What is reflected here is the differences in the value of land in different municipalities, or even different land values in various parts of the same municipality.

Where there is a reasonably active real estate market, it is not difficult to arrive at reasonable judgements of market value, that is, what properties with common characteristics are likely to fetch if offered for sale. When sales take place only

---

[11]Special provision was made for assessment of agriculture and tourism properties. Farm land was rated on an "agricultural capability" factor of $150/acre for A-2 class, which has remained unchanged since 1972. For tourism, the residential tax rate is applied to that portion of commercial accommodations used for sleeping.

infrequently in a particular locality, or if a property is "one of a kind", it is more difficult to discover what the actual market value is likely to be.

A common method of determining market value in those situations is through the "depreciated replacement cost" approach, in which the assessor assembles data to estimate what it would cost to replace the property to its present state, thereby providing a basis for estimating the likely selling price.

A second alternative is the "income approach", a procedure that is particularly useful in arriving at an estimate of the market value of rental property. In this approach, the assessor assembles available information on rental revenues and operating expenses for the property being assessed. By capitalizing the net income from the property, a reasonable estimate of the likely market value can be made.

A third method may be the use of proxies, considering the differences in sale prices for buildings which do move and transposing the price variation to other properties. Often it may be necessary to follow several of the available approaches in order to arrive at the most reasonable estimate of market value.

Variations in market values of similar properties in different municipalities may cause differences in property tax burdens more serious than the tax rate itself. This is one of the main reasons why the property tax is considered most appropriate as a municipal tax, since the limited geographical area of a municipality will limit variations from market uniformity.

3.6 The Municipal Grants Program

The Municipal Grants Program of the provincial government is intended to help offset financial disadvantages experienced by municipalities which do not have a tax base sufficient to support local services.

Prior to 1975 the Province offered a program of municipal grants which included per capita grants in the case of the towns, and matching grants to villages. In addition several miscellaneous

grants were paid to some of the larger municipalities. The Province, then as now, maintained all streets and roads in villages, CICs and unincorporated areas, as well as providing their police services.

In the case of the City and towns the Province maintained only "designated" streets; non-designated streets (those of primarily local use) were the responsibility of those municipalities, which were also responsible for police services. Because both Charlottetown and Summerside have a Public Works Department, they also maintain their designated streets through a contractual arrangement with the Province.

In 1975 the Province adopted a new grants formula which provided two features:

- a base "unconditional" grants to all municipalities

- a supplementary equalization grant to help provide a measure of equality between municipalitiesies having a low tax base in relation to those having a higher tax base.

After several years the desire was expressed by the larger municipalities for a more equitable grants program, particularly to provide improved assistance for street maintenance and policing. Efforts to effect improvements included both an external review and a number of internal studies.

An alternative proposed in 1978 would have assigned to the towns and villages all responsibility for street maintenance and policing. A revised grants program offered additional assistance in providing those services, which was designed to place towns and villages on an equal basis with respect to those high cost services.

The proposed grants package was not acceptable to municipalities and a second proposal was made in 1983, offering a series of options. These included either transferring street maintenance and policing costs entirely to the province or entirely to the

municipalities, with appropriate adjustments to the municipal grants program, or an alternative approach based on property tax reform.

This latter would also have transferred the street maintenance and policing responsibilities to villages, again attempting to place them on an equal basis with the towns; it would also have abolished the provincial property tax on non-commercial property within those municipalities, in deference to the latter, as well as abolishing municipal grant payments to them.

All of the options under this second offer were in turn rejected by the municipalities and in 1986 the Province finally decided on the present approach, which is in effect the flip side of the proposal from the late 1970s. Since the villages had rejected new responsibilities for maintenance of non-designated streets and for policing, the Province elected to compensate the City and towns, up to standard provincial costs, for providing those same services.

This was intended to place all towns and villages on an equitable basis with respect to the two "high ticket" functions, and also to remove disincentives for villages to become towns.

The Municipal Grants Program introduced in 1986 thus had four components:

- an equalization component designed to compensate municipalities for deficiencies in the total assessment values

- compensation of $25 per capita for the city and towns which provide their own police services

- compensation of $6,250 per km for the City and towns for the maintenance of non-designated streets

- a Community Recreation Support Program (CRSP) which offered support for existing major recreation facilities (arenas) and programs, a capital improvement fund, as well as project support for non-municipal areas.

The equalization formula was quite simple:

The province compared the provincial average per capita assessment with the per capita assessment in each municipality; if the latter was less than the provincial per capita average, the municipality was paid an equalization grant. The amount of the grant was based on the difference in the average per capita assessments, taxed at the rate established by the municipality for non-commercial property.

In effect the Province acted as if it owned and paid taxes on non-commercial property in the municipality equal to the amount of the per capita difference.

The 1986 program was implemented for a five year period, with an interim review proposed at the end of three years. Following the review conducted in 1989, the following adjustments were made:

- compensation for policing was increased to $35 per capita for the City of Charlottetown and the Town of Summerside, and to $30 per capita for the remaining towns;

- compensation for street maintenance was increased to $8500 per km for Charlottetown and Summerside, and $7000 per capita for the remaining towns;

- an adjustment was made to the data used for calculating the equalization grants and provision was made for payment of a minimum 85% of the updated calculations;

- the CRSP was converted to a grant ($10,000 to $15,000) in support of the operation of existing community arenas and a leadership grant of $5,000 as an incentive to hiring professional recreation staff.

- grants funds were increased from $3.6 million to $4.1 M.

4.0 FACTORS IN THE MUNICIPAL ENVIRONMENT

4.1 General

In the course of project research it became apparent that a major factor underlying perceived inequities in the property tax and municipal grants regime is the structure of municipal government in the province.

The differences in rate-payer burden and municipal tax effort across the province is highlighted by the fragmentation of local populations into a formidable array of municipalities. This combines with other environmental factors to complicate efforts to achieve an equitable solution to the study issues.

Among the more important of the environmental factors are:

- past failure to incorporate new settlement within the three major urban areas
- weaknesses within the municipal level of government
- fragmentation of effort in the major urban settlements, particularly in the capital area
- economic factors constraining municipal efforts
- negative overtones within intergovernmental relations

These factors create a context for the consideration of equity issues in the remaining sections of this report.

4.2 The New Settlement Factor

As briefly indicated in Section 2, social and economic trends on PEI since 1950 have produced a significant change in the character of settlement, tending towards increasing concentration of population in the urban areas of Charlottetown, Summerside and Montague, and at the same time a proliferation of local government in those three areas. (Exhibit 1)

EXHIBIT 1: POPULATION, PROVINCE AND COMMUNITIES WITHIN URBAN AREAS ON P.E.I. FOR SELECTED CENSUS YEARS

	1971	1981	1986
Prince Edward Island	111,640	118,229	126,646
Charlottetown	19,133	15,282	15,776
Charlottetown Suburban Area			
Bunbury	527	1,024	1,054
Cornwall	657	1,841	1,894
East Royalty	-	1,863	2,039
Hillsborough Park	-	1,063	996
Sherwood	3,805	5,705	5,769
Southport	-	1,302	1,321
West Royalty	-	1,686	2,070
Parkdale	2,315	2,018	2,065
Elliot River	-	338	417
North River	205	1,504	1,732
Miltonvale	-	941	1,080
Meadowbank	-	202	258
Keppoch-Kinloch	-	361	453
Totals	-	19,848	21,140
Summerside	9,439	7,828	8,020
Summerside Suburban Area			
Linkletter	-	286	305
St. Eleanors	1,621	3,546	3,743
Sherbrooke	-	461	567
Wilmot	737	1,563	1,708
Totals	-	13,684	14,343

Within five "crow-flight" kilometres of the City of Charlottetown population growth has resulted in a new metropolitan area consisting of sixteen municipalities. In effect, the capital area has been re-created as a new and larger settlement of almost 40,000 people, through the relocation of many thousands of new residents drawn to the area for the economic, cultural, social and other opportunities to be found there.[12]

The suburban population now exceeds 24,000 compared to 15,780 within the City proper, with the population ratio having been reversed in less than twenty years.

In the case of the Town of Summerside, a somewhat similar development has occurred during this same period, although on a much smaller scale than in the Capital. Four new adjacent communities have formed which have a combined population of approximately 6,300, compared to 8,020 for the core municipality.

A lesser development has occurred at Montague, which is now bounded by two new municipalities, whose 800 population compares to almost 2,000 for Montague.

Considering all three of the Province's major urban areas, the combined population of the core municipalities is 25,790 while that of the adjacents is in the area of 30,000.

These adjacent municipalities have resulted, in part, from a failure on the part of the City and the two towns to seek a timely expansion of their boundaries in order to provide for the new area residents.[13] The province, for its part, permitted new

---

[12]This contrasts with the situation in Halifax County, Nova Scotia, whose population of 306,400 has a municipal structure which includes two cities, one town, one county municipality, and the equivalent of three incorporated villages.

[13]Charlottetown expanded its boundaries in 1962 to include the former Spring Park School District, following a plebiscite among residents of the three historic Royalties. Residents of Central Royalty (now Sherwood) also voted to amalgamate with Charlottetown but the Village of Parkdale opted to continue as a separate community. The City then declined to expand its boundaries around Parkdale so as to include Central Royalty.

municipalities to mushroom rather than extending the boundaries of those already in place to serve those areas.

This situation has two consequences for the Provincial Government: it has continued to provide local services in new municipalities as if they were still rural villages; and any major provincial initiative in the two major urban areas requires extensive multi-party negotiations, often disproportionate to the central issues involved.

For example, the proposed perimeter highway for the capital area, covering a stretch of highway about 5 kms in length, involves negotiations with West Royalty, Sherwood, Parkdale, and Charlottetown. Any similar venture which affects the capital area may be impeded by the extent of consultations required, such as the ten-year effort to achieve a regional water and sewer utility, or even to commemorate the provincial capital as the Birthplace of Confederation. A similar situation occurs with respect to possible infrastructure improvements in the Summerside region, as indeed for any municipality which has common boundaries with others.

4.3 Weaknesses Within the Municipal Level of Government[14]

The current structure of local Government requires an annual complement of approximately 600 elected officials who must then be able to deal competently with the full range of servicing issues affecting the Island's eighty-eight local jurisdictions.

As indicated in the Report of the Royal Commission on the Land, and confirmed by project research, the present situation shows evidence of weak administrative systems in many municipalities, a sharply limited planning commitment, a general lack of research

---

[14] See also Chapter 7 of the Royal Commission Report on the Land for supplementary information on this subject.

and analysis capability, and weakness in municipal policy formation, and financial and long range planning.[15]

This is largely because many of the municipal offices are staffed only part-time, or at best by one person or two persons. Only 16 of the 88 municipalities are served by a full-time administrator; six communities have a half-time administrator, and the remaining 68 have administrators who are classed as "part time". The majority of administrators have had little if any prior training in the skills required for modern municipal government. The time of these employees is occupied by a wide range of private concerns of residents, leaving little time to attend to broader issues of importance to the community at large.

The result of this situation is that almost all municipalities must operate with minimum professional and technical guidance, because of the inability to employ qualified staff in all functions (e.g. planning, public works, finance, recreation). There is a reported tendency among municipalities to favour development over planning, with considerable anecdotal evidence of less than a firm commitment to the adoption and enforcement of official plans where these threaten to obstruct development possibilities. All of these factors lead to a reactive approach within municipal government, such as in their response to previous municipal grants proposals.[16]

Weaknesses in the matter of municipal services and administrative support tend to be attributed by municipal spokespersons to an inadequacy in the grants program rather than to a possible weakness in the municipal structure itself. Municipalities then view solutions as involving more generous grants rather than any examination of municipal structure issues.

---

[15]A meeting scheduled for two weeks with the fourteen-member Executive Board of the Federation of Municipalities to discuss a number of study issues turned up only four members, from Charlottetown, Alberton, Parkdale and East Royalty respectively.

[16]E.g. the formal response by the PEI Federation of Municipalities to the 1986 Municipal Grants proposals did not offer alternatives.

4.4 Fragmentation and Duplication of Effort

The present municipal government structure creates obstacles to achieving economies of scale in providing local services, especially in the main urban areas; it also encourages apparent duplication of services and costs.

In most parts of rural PEI the smaller municipalities are well removed from one another, which prevents opportunities for consolidation or joint endeavour. For example, there is little incentive or opportunity for most villages to expand their boundaries to include areas now served by CICs.[17] However, where two or more municipalities adjoin one another the wisdom of having separate governing bodies and duplicate administrations is difficult to determine, except in terms of unimportant local rivalries or exaggerated sense of community.

There is hardly an area of municipal responsibility in the three major urban areas which is not amenable to economies of scale, including police, fire protection, street maintenance, water supply, garbage and sewage disposal, and planning, such as has been achieved by the province through the centralization of the property assessment and tax collection functions. However present provincial policies appear to becloud the more pragmatic approaches. For example, as long as police services and street maintenance are provided by the Province to villages and CICs there is little call for municipalities adjacent to the City and towns to consider rationalizing the present arrangements.

There are serious portents for the future. Our interviews indicated that demands for urban services are continuing to grow. These include improved support for conventional infra-structure, for recreational and cultural services, traffic and pedestrian safety, additional policing, and improved municipal marketing in tourism and other forms of economic expansion. The response to those demands will be constrained by economic factors below.

---

[17] In the case of smaller rural municipalities opportunities for consolidation of effort may be through the creation of some form of county-type government, whose analysis is beyond the scope of this report.

4.5 Economic Constraints

A serious consequence of the haphazard development of municipal government is that it accentuates economic and financial obstacles experienced by municipalities in dealing with increased service demands.

These obstacles are likely to become increasingly serious in future, for several reasons:

- the general economic climate in the province and nation, with more rate-payers than ever being reported as urging a hold on property tax rates

- increasing demands for services, with limited municipal revenue sources and no apparent opportunities to expand revenue sources

- general scaling back of Government departments and programs, and reduced programs of assistance for local works projects

- the alleged insufficiency of the total municipal grants fund in meeting the objectives established for it

- the vulnerability of municipalities to possible unilateral program changes by the province

4.6 Inter-governmental Relations

While there was almost universal appreciation for the Province's role in property assessment and property tax collection, and also general support among villages for the present grants program, there were also indications of potential for continuing contention between the two levels of government within the province. Among other things we noted:

- a belief on the part of the City and several towns that the Province should not be involved in the property tax field in those municipalities where it does not provide local services

- frustration over the unequal treatment afforded the City and towns vis-a-vis their adjacent communities

- a belief that the Province has applied insufficient resources to the Municipal Grants program in relation to revenues realized from the provincial property tax

- irritation over the Province's failure to consult adequately with municipalities in matters directly affecting them

This latter would be countered by provincial officials by citing the level of frustration experienced in reaching any level of understanding or agreement with their municipal counterparts.

There is an evident need for improvements in mutual understanding and communications between the two levels of Government.

5.0 PERCEIVED INEQUITIES - QUALITATIVE ASSESSMENT

5.1 General

This section summarizes results of qualitative research into perceived inequities in the present property tax and municipal grants regime. This assessment will establish whether and to what extent inequities have been identified. The quantitative analysis in Section 6 will describe the extent to which data supports the perceptions of inequity presented here.

The qualitative research focused on two streams of interviews: with municipal government representatives and with provincial government officials. The interviews sought to identify factors contributing to the perceived tax inequities, in particular between the main urban centres and the adjacent municipalities and/or unincorporated areas. Findings will be presented under the same headings as in Chapter 3, namely:

- provincial property tax
- municipal property tax
- property assessment
- municipal grants program

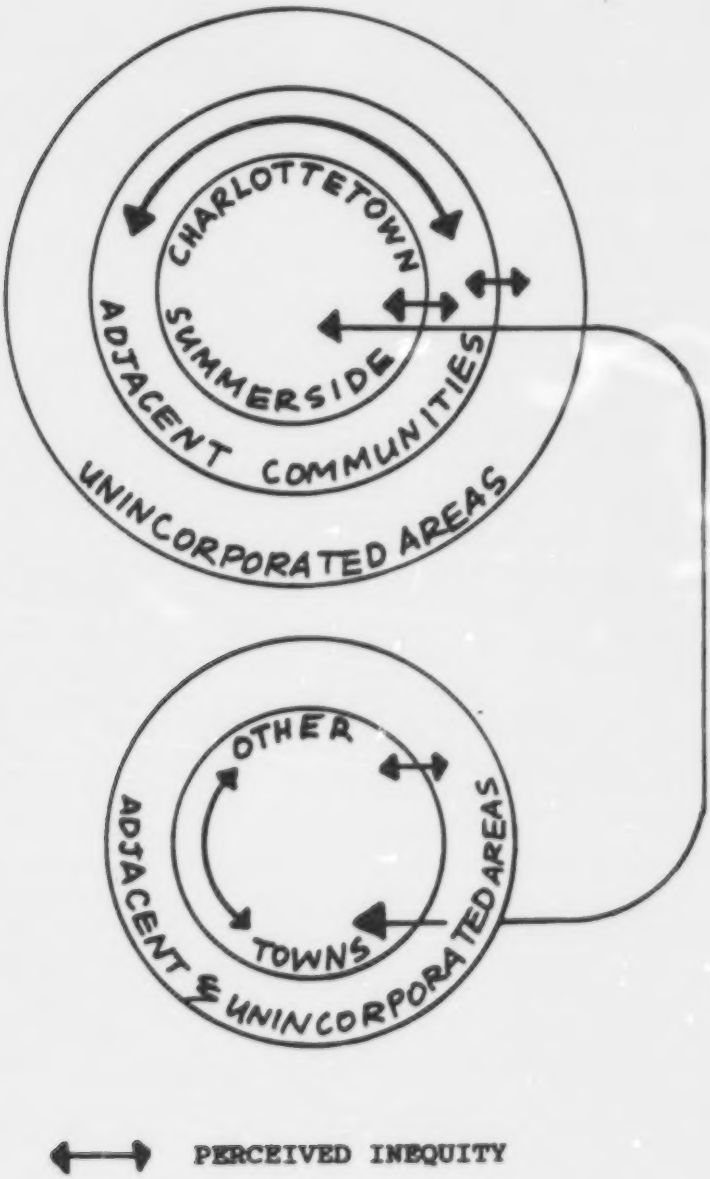
The following overall perceptions emerged in the course of project research.

- **There is a widely held view that the present property tax and municipal grants regime is inequitable.** The strength of this view varied across municipalities. Respondents identified inequities at different levels, including:

  - municipalities of Summerside, Charlottetown and Montague vis-a-vis their adjacent communities
  - some adjacent communities v-a-v one another
  - smaller towns v-a-v Summerside and Charlottetown
  - the City and towns v-a-v the villages
  - municipalities v-a-v- unincorporated areas

  These interactions are illustrated graphically in Exhibit 2.

EXHIBIT 2: PERCEPTIONS OF INEQUITIES IN RELATIONSHIPS AMONG MUNICIPALITIES



- Despite the foregoing, few informants appear to have analyzed either the property tax or grants program strictly from the perspective of equity but were satisfied on the face of the issue that there are inequities.

- There appears to be a general lack of understanding among many municipal officials about the full dimensions of the property tax and municipal grants regime.

- The City of Charlottetown and the Town of Summerside consider that their role as regional service centres have not been adequately recognized within the present system, and consequently that they do not have sufficient grants revenue to help meet the external demands made upon them.

- Among those interviewed, there was general though not unanimous recognition of the special plight of the municipalities of Summerside and Charlottetown.

5.2 Provincial Property Tax

This section sets out perceived equity issues bearing on the provincial property tax. Comments throughout this section reflect the opinions of informants rather than the views of the consultants. An analysis of these perceptions will be provided in Section 7.

1. The province is now preempting, in part, the property tax as a general revenue source, although almost all other provinces have reserved this revenue source for municipal governments.

   The objection of municipalities is that the imposition of a provincial property tax may effectively cap the tax rates and revenues of any given municipality, especially those which have a higher than average municipal tax rate. This then prevents the municipal tax from producing sufficient revenue to meet municipal needs.

2. **The province collects the municipal-type property tax in municipalities where it does not provide municipal-type services.**

Municipalities recognize that while the municipal grants may offset this factor in part, the amount of the grants is inadequate in relation to costs. Thus while the grants may lessen the measure of inequity, they are not credited with having eliminated it.

3. **The province levies a uniform rate across the province despite differences in levels of service provided to taxpayers in various parts of the province, in light of their property tax payments.**

The major equity issue voiced here was that, depending solely on statutory distinction between types of municipality, the Province provides local services to some ratepayers which it does not provide to others, while taxing all property owners at the same rate.

4. **In the two major regional service centres, the Town of Summerside and the City of Charlottetown, ratepayers are taxed to provide service demand generated by non-residents, while also being over-taxed to help fund services to the latter in their own communities. To a lesser extent this complaint was also made by several of the smaller towns.**

The major urban municipalities perceive that the preferential treatment which is afforded to adjacent municipalities by the province enables the latter to maintain lower tax rates, thus endowing them with a competitive advantage. Provincial tax policies are then described as inequitable in producing this effect.

5. **The different requirements placed on towns as compared to villages in the provision of street maintenance and policing leads to inequities.**

Several towns having smaller populations than some villages protested over the situation whereby they must finance

services which greatly stress their fiscal capacity, while these same services are provided free of charge to villages having greater resources. Some towns advised that they find it necessary to hold street maintenance expenditures to the pproximate amount of the provincial grant, despite deterioration of their streets.

The point was made by the smaller towns than there is little real difference between themselves and the larger villages, and yet the latter do not have the burden of paying for these high cost services.

The differential treatment prompted spokespersons for several of the smaller towns to ask members of the Project Team about the procedure for surrendering town status in favour of becoming a village.

6. **Adding provincial property tax to the municipal levy places an incorporated town or community at a competitive disadvantage in relationship to unincorporated areas.**

Municipal officers stated that provincial tax rates and lower property assessments encourage random or ribbon development in adjacent unincorporated areas, even when there continues to be surplus property available for development within incorporated communities.

In their view, the province ought to encourage consolidation of population within municipalities rather than ad hoc development along the highways, using a combination of tax and development approval (e.g. minimum lot size) policies for this purpose.

5.3 Municipal Property Tax

Municipal property tax issues surfaced only in the three major municipalities. In all other places there was little concern over the municipal tax, except to the extent that local rates are over-influenced by provincial tax policies.

Two factors bearing on the equity of municipal taxes were identified, the second of which relates to the first:

1. **Residents who secure tax advantages from locating in communities adjacent to the three major municipalities then capitalize on and generate increased demand for services in the latter, without contributing to revenue to meet their costs.**

   The tax advantage is allegedly created by the Province in the differential treatment of villages and towns in the matter of street maintenance and police services, and also from lower property assessment values.

2. **As a result of differential treatment by the province, the adjacent communities have an advantage over the core municipalities in attracting and retaining commercial development.**

   Their higher tax loads and rates are described by major urban centres as placing them at a disadvantage in relation to the adjacent communities.

   On the other hand, from the perspective of the adjacent communities there is a belief that core municipalities are compensated for the increased service demand because of the business development thereby generated.

5.4 Property Assessment

There was little consistency among municipal spokespersons concerning the degree of equity in the property assessment function, apart from general satisfaction that the Province has undertaken to provide the assessment service and to collect the municipal portion of the property tax. In some instances there appeared to be a lack of information concerning property assessment policies and standards.

1. **Spokespersons for the largest two municipalities held that the use of the market value approach is inequitable in that it imposes an added burden on their rate-payers, compared to ratepayers everywhere else in the province.**

   Their concern is that the market value approach leads to higher assessment values in direct proportion to degree of urbanization, and thus to unequal taxes for very similar properties. Values are greater in the capital compared to any town, and are greater in some towns than others, as well as in some towns compared to adjacent villages, or between incorporated and unincorporated areas.

2. **It was also contended that market value may be fair in the case of property owners who are in the active market, and thus gain from appreciated values, but that it unfairly increases the tax burden of those who do not.**

   This objection was voiced in support of retired home owners and others living on fixed incomes whose property taxes will rise simply because they are living in an area of rising land values.

   There is also an excessive tax burden on long-established business operations which are located in areas of high market value, which is unrelated to the value and worth of the business.

   The observation was made that market value assessments create a cause of inequity, in that as market values increase so does the tax burden, without reference to improvements in the amount or quality of service.

3. **Summerside presented a special case. Assessments in that town have been frozen at a constant level for the past two years, reflecting the slow market created by the closure of the Canadian Forces Base. This has cost the Town treasury a substantial revenue loss over that time, in that the Town had relied on the annual inflation adjustment to assessments to maintain a constant tax rate.**

5.5 The Municipal Grants Program

The municipal grants program is considered by the majority of municipalities as having improved their situation, with the notable exceptions being the City and several towns. Villages which were adversely affected by the grants program are still in an advantageous position because of the Province's policy on street maintenance and policing.

The degree of equity attached to the Municipal Grants Program tended to be identified with its financial impacts; where the 1987 program resulted in a reduced or no equalization component the tendency was to describe the program as unfair. Impacts were generally positive for the resource-poor towns and the villages, resulting in the program being perceived as fair in those cases, sometimes without reference to the adequacy of the grant itself.

Almost everyone interviewed expressed a measure of support for resolving the special situation of Charlottetown and Summerside; however, some wondered whether the financial situation of those two municipalities may be the result of an excessive array of services or possibly poor long-term financial planning. It was also suggested that the services provided by the larger municipalities gave them a competitive edge over other municipalities and thus should not be cited as a financial disadvantage.

However, even those who benefited from the changes to the grants program identified several significant inequities within it.

1. **Inadequacy of the designated grants for police and street maintenance.**

   The City and most towns alleged that the grants for these functions are significantly lower than actual costs. In the case of the two larger municipalities, and to some extent several other towns, they claim that service costs are distorted by non-residents and that the designated grants do not sufficiently recognize this factor.

2. **Possible inadequacy of the average per capita provincial assessment as a base for determining eligibility to equalization grants.**

   The point made concerning this factor was that the present formula does not sufficiently recognize service needs, or the relative capacity of municipalities to meet these needs.

3. **Higher unit payments to Summerside and Charlottetown vis-a-vis the remaining towns, for purposes of the street maintenance and police services grants.**

   In one of the smaller Prince County towns, officials indicated that unit costs for maintaining streets in that municipality are greater than costs in Charlottetown; it is only because they do less maintenance that their costs per km appear to be lower.

The larger municipalities made strong reference to the failure of the grants program to distinguish adequately between "full service" municipalities and all others. The former have provided a full range of municipal services to meet the needs created by daily high volume traffic and visitations, and by the need to protect the health and safety of large populations concentrated within a restricted area. They felt there should be a recognition of the added tax burden which this regional role imposes on their ratepayers, the majority of whom derive no benefit from these daily visitations.

The spokespersons for Summerside and Charlottetown considered as well that it is not possible to design a program that would meet the needs, in proportionate measure, of CICs, villages, small towns, Summerside, and Charlottetown. They held that the latter two, and possibly Montague, should be dealt with in a separate category.

Kensington, however, alleged that there is little difference between its situation and that of Montague, and any relief to Montague should also accrue to that town as well.

6.0 QUANTITATIVE FINDINGS

Quantitative data were obtained with respect to only three of the four components under review, namely: provincial and municipal property tax, and the municipal grants program. The Section relates these data to apparent inequities described in Section 5.

6.1 Property Tax

The provincial property tax was instituted in relation to education costs, and more recently has been related to the cost of providing other services to property owners. Therefore, this section will analyze the extent to which tax revenues have been consistent with those purposes.

6.1.1 Education Expenditures

Exhibit 3 presents property tax revenues since 1973 as a percentage of provincial expenditures for the operation of Regional School Units in the province. In the first two years of school consolidation and before the restructuring of the municipal grants program, the annual provincial property tax revenue averaged 28.6% of Foundation Program (school unit) costs. Since that time the performance of the property tax has been as follows:

- 1975 to 1979: 21.0% of Foundation Program costs
- 1980 to 1984: 22.3% of " " "
- 1985 to 1989: 25.3% of " " "

The upward trend in expenditures on education appears to favour the newer communities over the longer established towns and city.

Exhibit 4 shows the percentage of children and youth in relation to total population of the municipalities in the Summerside and Charlottetown areas, and for the Town of Montague. It shows that the population of the two larger municipalities includes a lower percentage of school children than the adjacent communities.

EXHIBIT 3: PROPERTY TAX REVENUE AS % OF REGIONAL SCHOOL BOARD EXPENDITURE, 1973 TO 1990

	Regional School Board Expenditure	Property Tax Revenue	% of School Costs
1973	12,500	3,787	30.2
1974	21,069	5,824	27.6
1975	25,092	5,049	20.1
1976	29,264	5,858	20.0
1977	35,739	7,388	20.6
1978	39,305	8,502	21.6
1979	42,240	9,665	22.8
1980	47,233	10,952	23.1
1981	55,139	11,913	21.6
1982	60,350	13,219	21.9
1983	68,153	14,536	21.3
1984	71,646	17,073	23.8
1985	72,212	17,572	24.3
1986	74,769	18,193	24.3
1987	79,608	20,189	25.3
1988	84,697	22,170	26.1
1989	92,500	24,336	26.3
1990	99,532	26,651	26.8

PROPERTY TAX REVENUE
% OF SCHOOL UNIT COSTS

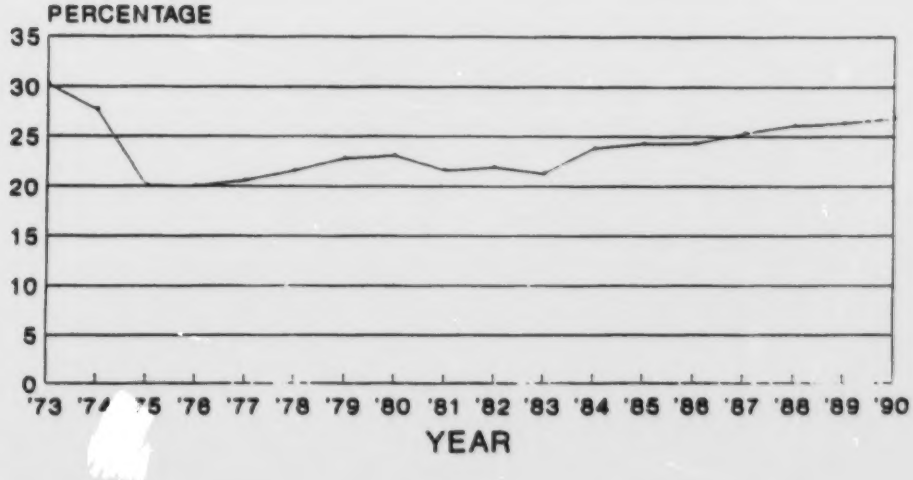


EXHIBIT 4: YOUTH POPULATION, AS PERCENTAGE OF TOTAL POPULATION, SELECTED MUNICIPALITIES (1986 CENSUS)

	(A) Total Population	(B) Under Age Eighteen	(C) B as % of A	(D) Age 6-17	(E) D as % of A
Province	126,550	34,350	27.3	23,590	18.6
Charlottetown	15,775	2,620	16.6	1,835	11.6
Crossroads	1,765	640	36.3	440	24.9
East Royalty	2,040	700	34.3	490	24.0
Elliot River	415	165	39.8	125	30.0
Hillsborough Park	995	320	32.2	235	23.6
Keppoch-Kinlock	455	160	35.2	95	20.9
Meadowbank	260	80	30.7	55	21.2
Miltonvale Park	1,080	320	29.6	200	18.5
North River	1,735	550	31.7	355	20.5
Parkdale	2,065	405	19.6	265	12.8
Sherwood	5,770	1,575	27.3	1,280	22.2
Southport	1,325	440	33.2	330	24.9
West Royalty	2,070	615	29.7	390	18.8
Summerside	8,020	1,845	23.0	1,200	14.9
Sherbrooke	570	150	26.3	100	17.5
Wilmot	1,710	550	31.6	380	22.2
Linkletter	305	95	31.1	65	21.3
St. Eleanors	3,745	1,205	32.2	1,195	31.9
Montague	1,995	470	23.6	345	31.7

Further, between 1971 and 1986 the youth population (between ages five and nineteen) declined by 52% in the case of Charlottetown compared to a decline of 17% for the Province as a whole. Thus rate-payers in the latter municipality are getting considerably less value from the educational program than was the case in 1972. (Comparable data is not available for other municipalities on PEI.)

Thus, while the property tax has performed consistently in relation to educational costs, it appears to be doing so at a disproportionate cost to ratepayers in the larger municipalities. That is to say, the tax for educational purposes is not sensitive to changes in local demand, as would have been the case if education had remained a local responsibility.

6.1.2 Municipal Grants Expenditure as a Share of the Provincial Property Tax

In order to examine municipal concerns about the adequacy of the municipal grants program, we considered that it would be reasonable to examine the relationship between property tax revenues and municipal grant expenditures since 1975. This is not to suggest that the municipal grants should be keyed to property tax revenue, but is simply adopted as a yard-stick of grants performance.

Exhibit 5 presents the contribution by the province to the municipal grants program as a percentage of the provincial property tax revenue since the tax was introduced in 1973.

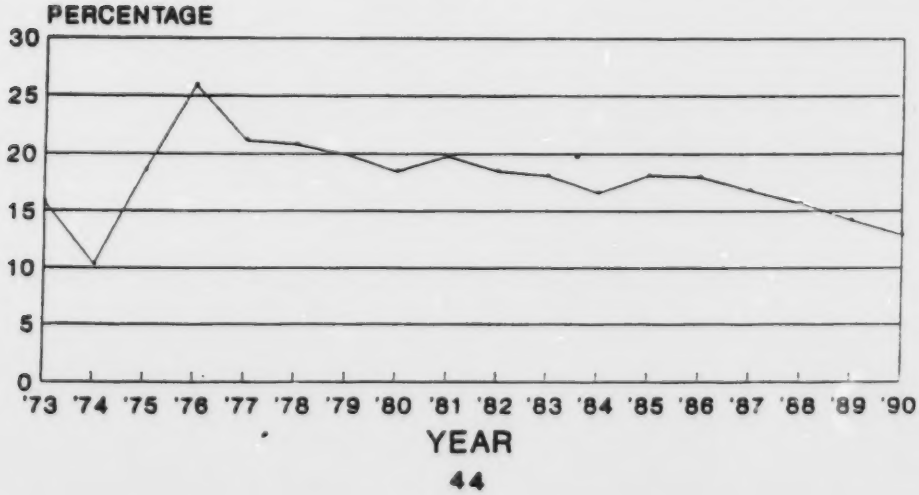
During the first two years following its introduction the province's average commitment to municipal grants was the equivalent of 13.1% of property tax revenue per year. Since that time the performance, by five year segments, has been as follows:

- 1975 to 1979: 21.3% of property tax revenue
- 1980 to 1985: 18.3% " " " "
- 1985 to 1989: 16.6% " " " "

EXHIBIT 5: MUNICIPAL GRANTS AS % OF PROPERTY TAX REVENUE, 1973 TO 1990 ($,000)

	Property Tax Revenue	Municipal Grants	% of Property Tax	5-Year Averages
1973	3,787	600	15.8	
1974	5,824	600	10.3	
1975	5,049	940	18.6	
1976	5,858	1,519	25.9	
1977	7,388	1,567	21.2	21.3%
1978	8,502	1,769	20.8	
1979	9,665	1,927	19.9	
1980	10,952	2,028	18.5	
1981	11,913	2,360	19.8	
1982	13,219	2,450	18.5	18.3%
1983	14,536	2,638	18.1	
1984	17,073	2,847	16.6	
1985	17,572	3,189	18.1	
1986	18,193	3,290	18.0	
1987	20,189	3,408	16.8	16.6%
1988	22,170	3,499	15.7	
1989	24,336	3,463	14.2	
1990	26,651	3,427	12.9	

MUNICIPAL GRANTS
% OF PROPERTY TAX REVENUE



For example, had the average ratio of property tax revenue to grants from the five year period following reform of the grants system been applied in 1990, the amount of funds in the grants program would have been $5,677,000 rather than the $3,427,000 actually spent.

This is not to indicate that the former would have been an appropriate amount, but rather that there has been a substantial change in the relative commitment of tax revenue to this program.

We were unable to undertake a test to determine if there had been an offsetting improvement in the general financial position of municipalities over the past decade, or indeed if there was an indication of any need to maintain the amount of the annual grants at the 1975-1979 level.

6.2 Impact of Provincial Tax on Municipal Rates

It has been suggested by the larger municipalities that the provincial property tax has had an impact in placing an effective cap on the rate which municipalities may be able to establish for their own purposes.

Determination of tax rates by municipalities appears not to be based on ability to pay but rather on four factors: historical rates; intuitive sense on the part of elected officials of rate-payer willingness to pay; rate-payer support for new local services; and rates in nearby municipalities which may be in direct competition for development.

Appendix 2 provides detail concerning the present municipal tax loads[18].

---

[18] Appendix 1 lists 1990 property tax rates in all municipalities. Appendix 2 then uses 1989 rates, for consistency with assessment data.

Appendix 2 is provided for comparison purposes only, since income data is from the 1986 census and is not valid for the present time.

The data provided in Appendix 1 and Appendix 2 force three conclusions:

- there is considerable tax room available to the majority of PEI municipalities;

- rate-payers in the larger municipalities are carrying a considerably larger tax burden than counterparts in adjacent communities, despite the lower median and average household incomes of property owners in the former;

- there appears to be relatively little correlation between property tax rates and ability to pay.

Exhibit 6 on the following page uses three sets of data from Appendix 2 to compare the relative tax burden of rate payers in the various municipalities within the major urban areas. It appears evident that the provision of services by the Province to the adjacent communities has enabled them to constrain their tax rates. This in turn has resulted in an imbalance in the relative tax burdens of tax-payers in the larger urban municipalities.

Exhibit 7 then compares selected municipalities in the three counties with respect to median household income and average household income. It shows the Town of Summerside and City of Charlottetown with lower median and lower average household incomes in comparison with the adjacent municipalities.

The generally improved tax base of the municipalities within the three major settlements is next shown in Exhibit 8. It indicates that over the two years from 1986 to 1988 significant gains were made in the communities adjacent to the core municipalities, with Charlottetown and Montague showing the lowest % gain over that time.

EXHIBIT 6: COMPARISON OF TAX BURDENS AND INDICATORS OF ABILITY TO PAY, SELECTED MUNICIPALITIES[1]

Municipality	Tax Burden Per $1000 of Income $	Average Assessed Value $	Median Household Income $
Charlottetown	22.58	52,637	20,721
East Royalty	20.63	44,445	26,462
Sherwood	20.50	65,898	33,960
Parkdale	17.93	55,493	27,315
North River	16.58	44,074	27,274
Cornwall	12.20	49,839	32,654
Bunbury	11.43	65,552	38,874
West Royalty	11.37	95,135	40,274
Hillsborough Park	7.77	38,151	25,416
Southport	6.89	65,531	38,266
Crossroads	4.06	55,791	32,499
Winsloe	4.03	53,833	29,866
Keppoch-Kinlock	4.01	96,478	51,499
Elliot River	2.90	63,629	38,299
Miltonvale	1.01	33,909	29,749
Meadowbank	0.71	47,269	43,691
Montague	15.19	39,245	20,193
Summerside	24.81	38,703	23,854
St. Eleanors	13.57	43,009	28,733
Wilmont	9.48	55,355	34,146
Sherbrooke	1.56	33,942	29,874
Linkletter	0.54	29,350	33,499

[1] See Appendix 2 for detail

EXHIBIT 7: COMPARISON OF TAX BURDENS AND INDICATORS OF ABILITY TO PAY, SELECTED MUNICIPALITIES[1]

Municipality	Tax Burden Per $1000 of Income $	Average Assessed Value $	Median Household Income
Charlottetown	22.58	52,637	20,721
East Royalty	20.63	44,445	26,462
Sherwood	20.50	65,898	33,960
Parkdale	17.93	55,493	27,315
North River	16.58	44,074	27,274
Cornwall	12.20	49,839	32,654
Bunbury	11.43	65,552	38,874
West Royalty	11.37	95,135	40,274
Hillsborough Park	7.77	38,151	25,416
Southport	6.89	65,531	38,266
Winsloe	4.03	53,833	29,866
Keppoch-Kinlock	4.01	96,478	51,499
Crossroads	4.06	55,791	32,499
Elliot River	2.90	63,629	38,299
Miltonvale	1.01	33,909	29,749
Meadowbank	0.71	47,269	43,691
Summerside	24.81	38,703	23,854
St. Eleanors	13.57	43,009	28,733
Wilmont	9.48	55,355	34,146
Sherbrooke	1.56	33,942	29,874
Linkletter	0.54	29,350	33,499
Montague	15.19	39,245	20,193

[1]See Appendix 2 for detail

EXHIBIT 8: TOTAL VALUE OF MUNICIPAL ASSESSMENTS FOR SELECTED FOR SELECTED MUNICIPALITIES, 1986 AND 1988

Municipality	Dec. 1986 Assessment	Dec. 1988 Assessment	% of Change
Charlottetown	$483,729,305	$547,536,756	13
Crossroads	27,417,722	35,010,273	28
Bunbury	18,967,697	23,687,338	25
Cornwall	25,566,781	31,129,809	22
East Royalty	24,536,893	30,646,899	25
Hillsborough Park	9,780,185	14,267,510	46
Sherwood	116,007,166	147,582,810	27
Southport	25,901,094	33,376,752	29
West Royalty	93,324,167	125,114,784	34
Parkdale	60,846,746	73,976,956	22
Elliot River	7,847,643	9,209,660	17
North River	23,894,429	28,593,857	20
Miltonvale	19,032,151	21,798,406	15
Meadowbank	5,136,329	6,370,705	24
Keppoch-Kinlock	13,999,928	19,518,056	39
Winsloe	15,323,979	18,906,297	23
Montague	32,872,371	37,129,064	13
Lower Montague	8,978,627	11,295,781	26
Brudenell	8,313,085	10,424,956	25
Summerside	125,585,772	149,382,227	19
St. Eleanors	48,608,183	60,022,050	23
Linkletter	5,764,037	6,384,031	11
Sherbrooke	14,297,996	16,763,027	17
Wilmot	30,476,166	44,230,868	45

However, it should be noted that the quantitative gain by Charlottetown was more than $63,800,000, which exceeds the total assessment of all other municipalities except Parkdale, Sherwood, and West Royalty. All municipalities in the three urban areas have done well as a result of total assessment increase. This indicates that at some point there is an opportunity for the province to transfer to municipalities legitimate municipal costs.

Finally we present below in Exhibit 9 the assessment values for four very comparable properties, owned by one corporation, in four different municipalities in the Capital area.

Exhibit 9: Comparison of Assessment Values for Similar Properties within the Capital Area. 1990

	Total Assessment	Land Value	Building Value
Property 1	$412,900	$241,400	$171,500
Property 2	285,100	89,300	195,800
Property 3	207,400	23,300	184,100
Property 4	181,600	30,000	151,600

Of the four properties in Exhibit 9, Property 1 is located in Charlottetown while the remainder are in adjacent municipalities. When these properties are also taxed at different rates it is evident that the Charlottetown operation must make a much greater effort than the other three to generate profit.

It is noted, however, that variation is assessed values results from the differences in the values of the land rather than differences in the value of the buildings or of the business

operation itself, again reflecting market value. This is an indication of the importance of the judicious selection of business venture for specific properties, e.g. low space requirements, high volume, good mark-up in high cost areas. In the case of established businesses, however, this choice cannot be made.

6.3 Municipal Grants Program

6.3.1 Street Maintenance

The PEI Department of Transportation and Public Works has recommended the amount of the street maintenance grant on the basis of average costs incurred by the province in maintaining streets, highways and roads within its jurisdiction.

Street maintenance costs per km incurred by municipalities in 1988 prior to the determination of the present grants showed that Summerside, Charlottetown, Parkdale and Montague typically incurred higher unit costs for street maintenance than in the other towns, reflecting their higher volumes and concentration of traffic, particularly heavy transport traffic.

It is difficult to compare these data, in that unit costs are determined by dividing costs incurred by the number of kms of streets within the municipality; thus if a given municipality finds it necessary to reduce its overall maintenance expenditures because of its financial position, street maintenance will show lower expenditures per km. This is not a reflection of need.

The following data on annual street maintenance expenditures per km in the city and towns, as gleaned from departmental files, illustrate the variation among towns in this respect:

	1988	1987	1986
• Charlottetown	$36,432	$36,480	$32,496
• Summerside	12,740	12,750	11,495
• Parkdale	10,967	12,462	8,984
• Montague	9,285	10,816	6,938
• Kensington	6,788	7,680	2,930
• Borden	6,400	6,297	6,490
• Alberton	5,649	7,717	7,650
• Souris	5,537	2,843	5,634
• Georgetown	3,890	2,378	2,590

Thus the street maintenance grant to some towns exceeds their annual street maintenance expenditures per Km, with the surplus then serving as a direct subsidy to town administration. In the case of some others, notable Charlottetown, the grant falls far short of meeting costs because of demands on street maintenance in the capital.

Similarly, there are significant differences among towns in the proportion of streets which are classed as non-designated and therefore must be maintained by the municipality. The situation is described below:

	Non-designated Streets (Kms)	% of total Streets
• Borden	2.18	54.4%
• Souris	10.99	56.4%
• Parkdale	9.91	61.3%
• Alberton	10.56	62.0%
• Montague	11.27	67.5%
• Kensington	7.80	72.2%
• Charlottetown	58.44	79.1%
• Summerside	35.77	80.7%
• Georgetown	12.56	81.0%

These data indicate the difficult in achieving a satisfactory municipal grants program when dissimilar situations are treated in a similar fashion. It is not surprising that Borden and Souris expressed satisfaction with the grants program, whereas Summerside, Charlottetown and Georgetown did not.

6.3.2 Police Services Grant

Exhibit 10 presents 1990 per capita policing costs in municipalities offering this service. It indicates not only a considerable variation in the cost of providing police services in the municipalities listed, but also a very uneven impact of the police services grants on municipal costs.

The determination of the police services grant by government was initially based on the per capita cost of policing the province within the RCMP contract, subsequently adjusted to conform to the maximum amount available from funds appropriated for municipal grant purposes. The $35-$35 per capita grant established in 1989 contrasts with the $53 per capita for RCMP services in that year. RCMP per capita costs are based on crime rates for the areas served, and does not reflect the amount of criminal activity carried out in municipalities by residents of areas served under the RCMP contract.

The police grant does not approximate the amount required to place the towns and villages on an equivalent basis in respect to police services.

6.3.3 Recreation Grant

Exhibits 11 and 12 compare recreation expenditures for 1986 and 1989, as a percentage of total municipal expenditures and also as a ratio of revenues from recreation. The data indicate little apparent relationship between the grants and improved recreation effort; however this is not an equity issue and is listed here solely to indicate that it may be useful to re-examine this component in any later review of the grants program.

EXHIBIT 10: COST OF MUNICIPAL POLICE SERVICES, SELECTED YEARS

Municipality	Type of Police Service	Per Capita Net Costs 1986	Per Capita Net Costs 1988	Per Capita Net Costs 1990
Charlottetown	A	61.70	93.75	113.29
Summerside	A	68.49	83.57	97.31
Alberton	C	(.73)	7.49	3.69
Kensington	A	32.39	40.82	52.46
Montague	B	(2.39)	5.54	(4.92)
Parkdale	B	61.72	79.29	100.25
Souris	B	(11.00)	(5.77)	(7.52)
Sherwood	B	7.44	11.09	11.99
St. Eleanors	A	9.14	22.42	30.98
Tignish	C	3.89	11.52	14.49
O'Leary	C	-	-	NA
Georgetown	B	(25.00)	(25.00)	NIL
Borden	A	(25.00)	(25.00	NA

A Municipal Police Force
B Separate Contract, RCMP
C Extended Services Contract, Police
NA Not available on a comparable basis

EXHIBIT 11: TOTAL MUNICIPAL EXPENDITURES ON SELECTED ITEMS AS % OF MUNICIPAL ACCOUNTS, 1986 TO 1988[1]

	1986	1987	1988
General Administration	11.8	12.5	13.5
Recreation	14.4	13.5	11.5
Police	15.2	16.0	17.9
Fire Protection	11.1	10.5	11.6
Street Maintenance	16.5	17.5	16.8
TOTALS	69.0	70.4	71.3

EXHIBIT 12: TOTAL MUNICIPAL RECREATION REVENUES AND EXPENDITURES, 1986 to 1988

	Revenue	Expenditure	Ratio of Expenditure to Revenue
1986	792,762	2,962,771	3.7 : 1
1987	835,664	3,034,382	3.6 : 1
1988	1,076,016	2,517,071	2.3 : 1

[1]Internal Documents, Department of Community and Cultural Affairs.

7.0 ANALYSIS OF FINDINGS

7.1 General

In this section we address the substantive equity issues which emerged from the analysis of data in Sections 5 and 6. Several of the issues raised in Section 5 do not appear to be real issues of equity in that they can readily be addressed directly by the municipalities themselves. For example, any possible burden to financially strapped older residents as a result of the market value approach to assessments can be reduced by deferring tax charges, as the Province has done; similarly, assessment increases without concurrent improvements in service values can be offset through adjustments to municipal rates, as the Province has done several times since 1973.

In the analysis which follows we have made the assumption that it is reasonable, for our purposes, to relate the provincial property tax to the provision of property services, at least in part, for several reasons:

- the fact that the property tax is not a dedicated tax within the Department of Finance, and that education expenditures are not sensitive to changes in property tax revenues;

- because municipal type services are provided by the province to some municipalities and to unincorporated communities, it would appear somewhat specious to debate whether the funds for such services come from this or that source.

- the justification cited by the Minister of Finance for not remitting any portion of the non-commercial tax to non-resident owners referred to various services for which those owners do not make a contribution through other forms of taxation[19];

---

[19] Various correspondence to non-resident owners.

- the implicit assumption by the Royal Commission on the Land that the provincial property tax may be considered in the light of provision of services to property;[20]

7.2 The Property Tax

Tax equity is achieved through a fair distribution of the tax burden among the taxpayers within the taxing jurisdiction. The property tax is frequently charged with being a regressive form of taxation and therefore less desirable in terms of the test of ability to pay.

Property taxes are only one element of a total taxation system, a system which must attempt to achieve overall equity in the treatment of citizens. The extent of government activity in behalf of the citizenry is now so pervasive that it is difficult to isolate any one tax instrument as being more or less equitable than any other. Whereas it may not be possible to achieve equity within each tax component, the overall tax burden should be equitably distributed.

The quality of one's residential property is normally considered by the general public as a probable indication of the owner's relative worth. Any portion of worth that can not reached through the property tax may be reached, in fair measure, through other tax instruments.

The possible regressivity associated with the property tax is not a real objection to its use by Government. For the province to abandon this tax field in favour of the more progressive income tax, for example, would require an increase of approximately 25% in the provincial income tax rate, as well as a significant and arbitrary redistribution of the tax load. We do not think that there would be sufficient gains from an equity perspective to warrant this kind of shift in the tax system.

---

[20] **Everything Before Us:** The Report of the Royal Commission on the Land. 1990. p 511.

In the case of municipalities, the property tax is the principle revenue source available to them, and has been well established and accepted by rate-payers. Thus we do not recognize an inequity in the use of the property tax as such.

7.3 The Provincial Property Tax

7.3.1 Validity of the property tax as a provincial tax

In most province of Canada the property tax is reserved to municipalities; however, in other provinces varying proportions of the cost of education are assigned to municipalities, paid for in part by the property tax. In PEI the province has relieved the municipalities of all responsibility for educational financing. In that the provincial property tax was introduced at the time of the transfer of this responsibility we conclude that the provincial government would be warranted in participating in the property tax on PEI for this reason alone.

However since 1972, when the province assumed all responsibility for grade school education, there has been a significant reduction in the percentage and number of school aged youth within the total population of Summerside and Charlottetown, the two major urban areas. This means that there is an imbalance in the relationship between taxes paid and benefits received by rate-payers in those municipalities compared to adjacent communities where property taxes and tax burdens are lower, although having a higher percentage of school age youth within their total populations.

Further, we must also accept the assertion by the Town of Summerside and the City of Charlottetown that having paid for their respective school plants, their rate-payers were then required to contribute to the construction of schools elsewhere in the province, while their own schools were essentially held to the status quo. Thus we consider that given the imbalance in the ratio of educational expenditures in the City and towns compared to communities and unincorporated areas, this is an insufficient rationale for the imposition of a property tax in the former.

Further, the position we have affirmed in Section 7.1 that the provincial property tax should bear some relationship to services to property would indicate that it is reasonable to consider the provincial property tax in light of the province's contribution to municipal type services. This contribution is made, in part, through the municipal grants system.

In this light, there appears to have been a substantial reduction in the commitment to municipal grants in proportion to revenue from the property tax source, as was shown in Exhibit 5. While not an equity issue, it seems clear that that municipal grants have been awarded a reduced budgetary priority by the Province over the past decade.

This in turn has had a relatively greater impact on rate-payers in the largest municipalities, and does not appear to recognize their relative ability to pay compared to their counterparts in communities, as indicated earlier in Exhibits 6 and 7.

7.3.2 Imposition of a uniform tax rate despite differences in services provided within municipalities

We believe there is an inequity in the imposition of a uniform property tax rate by the Province on all tax-payers despite differences in the level of services offered to tax-payers in the various municipalities and rural areas.

The City and towns now provide all local services, whereas the province provides some local services to communities (e.g. street maintenance, police services, assistance with garbage and waste disposal,) and all such services needed by residents of unincorporated areas.

Except for the City of Charlottetown and the Town of Summerside, there is no real difference between the towns and the larger communities (villages) on PEI, except in an historic sense. The difference is one which is created by statute only; having established the difference, the legislation then provides the sole rationale for different treatment of very comparable municipalities in the matter of services and grants.

To take the most notable example, there is no essential difference among the municipalities of Parkdale, Sherwood, and West Royalty and yet the treatment of Parkdale by the Province in the matter of local services is significantly different from that afforded its adjacent communities.

Similarly, there is no essential difference between the municipalities of Tignish, Alberton, and O'Leary, or between Kensington and St. Eleanors, but there is a significant difference in their treatment within the Province's current servicing policies.

We conclude, therefore, that there is inequitable treatment of the City and towns vs other incorporated communities when a uniform tax rate is imposed despite differences in the services provided to municipalities by the Province.

We simply differ with the position of the Department of Finance that the property tax can be considered entirely in the light of an educational tax, and that the uniform rate for the provincial property tax is justified by the uniformity of educational services throughout the province.

The uniform tax rate, in combination with other government policies in the matter of servicing, also fails the test of equity in the matter of ability to pay, whereby the greatest tax burden is being borne by residents in municipalities with lowest average and median incomes, compared to residents in adjacent and nearby communities who do not have to pay for all local services.

7.3.3 Discrimination in treatment of incorporated v-a-v unincorporated areas

We believe that there is also an inequity in charging the same property tax to rate-payers in unincorporated areas as is charged to rate-payers in municipalities. The former are provided with the necessary local services by the province, whereas the latter must pay for some or all of those same services through municipal property taxes. For example, the provision of paved streets (roads) and culverts for residential properties deliberately

sited in out-of-way places is unfair to those who pay for their own street paving through development costs in incorporated areas, although this is not an unusual provincial expenditure.

The present policy of the province has a secondary effect which is also unfair to residents in incorporated communities. The combination of lower assessments in unincorporated areas, and a tax rate which does not take into account services provided by the Province, reduce the tax load for property owners in those areas. Home owners have sought such cost advantages by building outside of incorporated areas, which also enables deferment of costs involved in connecting to local water and/or sewage disposal services. Having avoided any of the costs associated with municipal benefits, these owners then take advantage of the available conveniences to the extent desired.

This situation removes incentives to consolidation of the population within municipal boundaries where they can be most efficiently serviced, and is a contributing factor to "ribbon development" on PEI as well as to later servicing costs borne by the Province. Land owners and developers have employed these features in promoting the sale of building lots in unincorporated areas. The end results, however, frequently involve provincial government remedies for servicing and other local problems which later develop.[21]

Government could restore a measure of equity in this situation by establishing a tax rate for home owners in unincorporated areas which would require that they pay a greater share of the cost of services provided to them, and also by increasing the minimum lot size requirement for unserviced lots as a precaution against later servicing requirements.

---

[21] Community Services records indicate that since 1974 approximately 12,000 homes have been built in areas which are not covered by official plans. Of this number about 10,000, or 85% of the total, have been built along main highways, in unincorporated areas.

7.4 Municipal Property Tax

We have difficulty in accepting the view that the provincial tax has a significant impact in constraining local rates, except in the case of the two major municipalities. Research data does not support that there is a real problem for most municipalities on PEI in adjusting rates upward because of provincial involvement in the property tax.

The major problem with respect to rates appears to be in the differential between the various municipalities within the three major urban areas, with rates in adjacent communities being influenced by provincial servicing. It is this factor which is the most contentious issue in rate determination. Thus equity issues bearing on municipal property rates and tax loads are secondary to the issue of municipal boundaries in those areas.

The problem derives from the fact that the major urban areas are in effect three settlements, although at a political level they have been formed into more than twenty individual municipalities. It is this government by neighbourhood factor, combined with favoured treatment for communities, which has produced inequities rather than any inherent weaknesses in the municipal property tax system. For instance, we were unable to identify equity issues among municipalities which are well removed from one another.

7.4.1 Service Centres and Adjacent Communities

We accept as a fact that the three larger core municipalities are service centres for their respective regions, as to a lesser extent are several of the smaller towns. In the case of Charlottetown, that city also serves as a service centre for the province because of its status as Capital.

The role of these municipalities as service centres accounts for many of the service demands placed on them. For example, were it not for demands by non-residents, municipalities having the population of Summerside and Charlottetown would not ordinarily expect to incur as great a cost for police services as they must now bear. Similarly with respect to the volume of street traffic and demands on other local services.

Thus the two largest municipalities have by far the highest service demand, tax rates, and the greatest tax burden relative to household income, except for the community of Tignish. In the case of Montague, the tax rate for residential property is more than ten times that of the adjacent communities.

We believe it is valid to attribute a considerable portion of service demand in the three major urban municipalities to demand generated by residents of adjacent communities. Servicing this demand then has an impact of tax rates and tax burden on residents in those municipalities.

There are evident inequities in the present municipal structure which cannot be addressed through the property tax and municipal grants system; they can be fully addressed only by reorganizing municipal governments to reflect the realities of settlement which has occurred in the prinicipal urban areas.

7.4.2 Imposed tax disadvantage for the city and towns in promoting commercial development

The charge that tax advantages have a significant impact in attracting new business development is difficult to sustain. We are advised by business and industrial development specialists that the primary factors in business location are not property tax costs but rather visibility, ease of access for customers, parking, and services. Tax rates have been described as a less important factor in locational decisions, although these are frequently cited by municipalities as part of a total package of allurements.

The municipalities of Charlottetown, Summerside, and Montague have acquired their present status and commercial advantages because of their importance as shipping, trading, and commercial centres and for their social, recreational, and cultural roles. There have been advantages for business owners in each of those municipalities in the past as a result of those roles. The fact that the market has generated higher property values in the core municipalities speaks for itself with respect to their desirability for business location purposes.

On the other hand, using the example cited in Exhibit 9 which showed widely varying tax loads carried by identical businesses in comparable properties in four Charlottetown area municipalities, it is inescapable that businesses in the Capital cannot compete on an equal basis with counterparts in adjacent communities. A similar situation could be expected in the case of Summerside.

The impact in the referenced example is a tax difference of $7,500 between two identical businesses less than one mile apart, which, depending on mark-up, could represent a requirement for additional gross sales approximating $75,000-100,000 annually. The tax difference between the high and low value properties cited is $11,800. Where the difference is acute it is because the land on which the businesses are situated has acquired increased value unrelated to the type of business located on it. Those owners may realize a capital gain when the sell their properties, but they must sacrifice their businesses in order to do so.

However, we believe that any inequity in the municipal tax structure in the matter of relative commercial advantage or disadvantage is primarily the result of provincial servicing policies which favour some of the competing municipalities vis-a-vis one another. Any competitive advantage enjoyed by adjacent communities in the matter of tax rates is the result of the continuing acceptance of some municipal costs by the Province, thus enabling some municipalities to enjoy a tax advantage over others.

We find this to be inequitable.

7.5 Property Assessment Function

We have observed that Prince Edward Island has made noteworthy progress in improving the assessment function since assuming this role in 1972:

- computerization of the assessment roll, tied in with a province wide program of property mapping.

- rigorous improvement in the professional qualifications of assessors

- adoption and consistent application of market value standards

- yearly adjustment of assessments to reflect inflation

Given the acceptance of the property tax as the principal instrument for generating municipal revenues, it is necessary to establish some base for determining the value of the property for taxation purposes. Most jurisdictions in North America have now adopted the "market value" approach for this function.

7.5.1 Use of Market Value approach:

We recognize apparent inequities in the market value approach, but we consider that these are tolerable, for several reasons.

- There is general acceptance that the market value is the least subjective and most attainable yardstick for establishing a basis for property tax. Most municipal jurisdictions throughout North America have set their assessment objectives in terms of market value.

- Assessors as well as property owners are able to verify their estimates of value by looking for consistency in the relationship between the assessed value of properties and their eventual selling prices.

- There is a need to ensure province-wide consistency and proportionate values in the base adopted for taxation purposes; there is no readily available yardstick for this purpose other than market value.

- There is general public acceptance of market value assessment, as indicated by the extremely low level of appeals against assessments -- only three on PEI in 1990.

Market value does result in properties within incorporated areas having a higher assessment than similar properties in unincorporated areas; similarly, properties in the capital area will have a higher assessment than similar properties in smaller municipalities, just as properties within Charlottetown itself will have a higher value than similar properties in the adjacent municipalities.

However, this cannot be ascribed as an inequity in the system, in that assessments in each case reflect actual market performance in each case, and thus actual worth. Remedies for higher assessments are available through reduction in rates, or deferment of taxes in the case of the elderly.

Where inequities may develop is in the application of market value, such as in determining boundaries within which market yard-sticks are applied. This project was not mandated to examine the integrity of the property assessment process.

7.6 The Municipal Grants Program

The uniform tax rate established by the Province will produce varying tax burdens because of the relative strengths and weaknesses of the tax base. Because of higher property values in the main urban areas, property assessments will invariably be higher there than for similar properties in small communities and rural areas. This means there can be a significant variation in taxes for similar properties in different parts of the province.

The property tax is generally imposed in relatively homogenous areas where there are not wide variations in price for similar properties; in those situations the rate structure does not impose unfair burdens. The remedy where a property tax is imposed provincially is in the system of municipal grants, which can provide relief for home owners from excess tax burdens incurred simply by reason of where they have chosen to locate their home.

7.6.1 Adequacy of designated grants

The inequity identified earlier in the matter of discriminatory tax treatment of the City and towns vs communities could be reduced to the extent that the Province provides compensation to the former for services which it provides free of charge to the latter. However, the province appears to have gone in the opposite direction, particularly as a result of the proportionate reduction in the allocation of tax revenues to municipal grants.

A major weakness in the municipal grants program is that the amount of the designated grants for streets and police services are far below costs; this significantly impairs the Province's efforts to achieve equitable treatment of the city and towns in relation to other communities.

What the designated grants amount to is a means for offsetting the failure of the equalization grant formula to accommodate the situation of the city and towns; the amount of funds assigned for this purpose is inadequate to the task, and the program fails the test of equity on these grounds.

This factor has been a contentious issue since the grants system was revised in 1975 and continues to be a major cause of inequity through subsequent revisions. The problem stems in part from the fact that the Department uses an incorrect base in determining the amounts of the designated grants.

Average costs for maintenance of secondary highways in the province does not make sufficient provision for the much heavier and more concentrated traffic loads and volumes carried by the streets in the major centres at all times of the year. Similarly, the use of average provincial policing costs as a yardstick for police grants to the two major centres is inappropriate because the provincial average is based on data from areas having relatively low crime rates, and lesser traffic control problems.

The grants system may not be the most appropriate means for dealing with street maintenance. It would seem that if the province intends to provide funds for both designated and non-designated streets, both of these could be subject to concurrent negotiation between the towns and the Department of Transportation and Public Works and thus taken out of the grants program.

8.0 CONCLUSIONS AND RECOMMENDATIONS

8.1 Conclusions

General

1. The major source of inequities within the present system lies in the approach adopted to establishing municipal boundaries in the three major urban areas of the province, namely: Summerside, Charlottetown, and Montague. The uneven distribution of commercial assessment, the wide variation in household incomes, and the unequal burden of providing urban type services which is borne by neighbouring rate-payers are the major factors underlying inequities in the three core municipalities.

   These inequities derive principally from an artificial determination of boundaries which has resulted in a structure of local government organized on almost a neighbourhood basis, whose territories relate to the needs of school children of yesteryear rather than to the realities and service demands of the present age. These boundaries have then resulted in unfair treatment of rate-payers in the core municipalities compared to their counterparts in adjacent communities.

Property Tax

2. The property tax is an appropriate tax field for the province in the case of PEI, in consideration of its assumption of educational costs, but for reasons cited in Section 7.1 the provincial property tax should also be considered in light of services to property.

   As an educational tax alone, the provincial property tax has a significantly reduced value for the two municipalities which generate the most tax revenue, compared to the period when this tax source was adopted by the province. This is because of demographic changes which have occurred over that time.

3. There is an inequity in the present provincial property tax system, in that a uniform tax rate is established by the province for all rate-payers, despite the fact that the province provides different services to rate-payers in different communities throughout the province.

4. In the case of communities within the two major urban areas, legitimate municipal services have been continued as a service of the province despite the municipal tax room available to fund those services.

   It is inequitable to hold some municipalities responsible for providing some services which are then provided by the province to other comparable municipalities. Communities that are serious about having municipal governments should undertake to provide those services which municipalities are ordinarily empowered to provide.

5. Because the major inequities among municipalities are found within the three major urban areas remedies to such inequities should not be sought through changes that will impose unreasonable burdens on the smaller, resource poor, rural communities. Thus any transfer of services and costs to municipalities should not be done on a broad province-wide scale but rather through addressing the special inequities where they occur.

6. If the transfer of municipal service costs to the municipal level of government in the major urban areas would impose intolerable financial distress, these costs could be reduced through a consolidation of selected services, failing an appropriate resolution of the boundaries issue.

   An example of how economies can be achieved using this approach was provided in the consolidation of the property assessment and tax collection functions within the Department of Finance; another is the Charlottetown Area Pollution Control Commission. Similar consolidations could be effected in other areas of municipal services within adjacent communities.

Property Assessment

7. While we did not undertake an in-depth examination of the property assessment function, we consider that there are no apparent inequities in this service as presently carried out by the province, including in the market value concept which drives assessments. Any apparent inequities can be dealt with through policy instruments available to both levels of government.

   At the same time we recognize that property assessments can produce anomalous situations affecting established businesses when these are located in growth areas where land is in high demand.

8. There is a need for improved communications between the two levels of government concerning property assessment policies which are carried out by the Province, in part, in behalf of municipalities. In particular, assessment policies and their application should be examined periodically jointly with municipal representatives, such as through the offices of the Federation of PEI Municipalities.

Municipal Grants Program

9. There is an essential weakness within the grants program in attempting to encompass the major urban centres within a program equally designed for small towns and villages, and for rural municipalities. The larger centres have much greater service demands to meet, particularly in comparison with the functions approved for communities.

   For this reason, there are intrinsic barriers to dealing with inequities in the present regime by addressing it entirely through the grants program.

10. The present equalization formula, while simple to apply and understand, and equitable as far as it goes, is not sufficiently sensitive to minimum municipal service requirements.

11. The designated grants component provides insufficient compensation to the major urban municipalities for the additional costs of street maintenance and police services, which they incur in their role as regional service centres.

12. The distinction in the treatment afforded rural villages and towns is difficult to sustain on grounds of equity, in that there is little real difference between them: e.g. Alberton, O'Leary and Tignish; Kensington and St. Eleanor's; Borden, Crapaud and North Rustico.

8.2 Recommendations

In preparing recommendations the study team was mindful of the need to avoid remedies which would resolve problems of inequity in the urban areas at a cost of imposing burdens on the smaller rural communities.

In light of the evidence presented in Chapter 6, there is a clear need for significant change to the present situation. The present regime, incorporating the provincial and municipal property tax, municipal grants, and provincial servicing policies, is inequitable, and this situation cannot be corrected simply by adjusting tax rates or the grants formula.

The problems of inequity are clearly caused by the multiplicity of communities in the three urban areas, and can only be resolved by a redefinition of boundaries in those areas to reflect the realities of settlement.

General

1. **The Province should immediately commit itself to an appropriate change in the municipal boundaries within the three major urban areas of the province (Summerside, Charlottetown, and Montague), to be established through a special examination which should be commissioned promptly.**

   The terms of reference of such an examination should be to examine all of the impacts of the present boundaries and municipal arrangements, including:

   - the financial impacts of present municipal government boundaries within what are essentially whole settlements, including losses to efficiency and effectiveness in the delivery of municipal services

   - the extent to which legitimate municipal costs have continued to be borne by the province rather than being transferred to municipalities in urban areas

- possible barriers to the general welfare, including to economic and social development and comprehensive planning, created by the existing muncipal structure

- the present status and condition of the municipal infrastructure in the three urban areas, and likely replacement requirements over the next 20 years

- the likely financial commitments which will have to be borne by the province for upgrading or replacing municipal infrastructure if the present boundaries arrangements are continued.

- principles underlying the creation of new municipalities for the greater Summerside and Charlottetown areas, within boundaries to be established by the study.

We do not envision any "take over" of neighbouring municipalities by the City of Charlottetown or the Town of Summerside, but rather the creation of new municipalities and new authorities, and the passing of old conventions and local practices which have outlived their usefulness.

In the case of the Town of Montague the situation can best be addressed by adjustments to existing boundaries to reflect the degree of urbanization which has taken place there, and to distinguish clearly between the area which will continue to be serviced by the province as opposed to the area where servicing responsibility will devolve to the town.

2. **The province should establish differential property tax rates for residents living in areas where it continues to provide municipal type services, compared to municipalities where such services are not provided by the province or are provided at municipal expense.**

This can be achieved by eliminating or lessening the reduction in the provincial tax rate for residential property owners in communities and unincorporated area;

alternatively, the province could eliminate the provincial non-commercial property tax in areas where the province does not provide municipal services.

3. **The Province should effect an immediate increase to one acre in the minimum lot size for residential development within unincorporated and other unserviced areas.**

   Not only should there not be any property tax advantage for settlement in an unincorporated area, but there should be definite tax disadvantages. This is in view of the high risk of future demands upon the province for servicing at a later time, including for road paving which would not otherwise appear on the provincial roads program.

   Given the space and services available in almost all municipalities of the province there is no justification for the province to incur servicing costs in behalf of home-owners who choose to build where services, paved roads, and highway access are not available.

4. **The Department of Community and Cultural Affairs should adopt a more assertive posture with respect to the administration of the Municipalities Act.** This would include:

   - the designation of minimum services to be offered before a community can achieve recognition as a municipality

   - the requirement for completion of a feasibility study before entertaining an application for recognition as a municipality

   - a restructuring of existing municipalities according to types of services offered, and in accordance with the Classes to be suggested in Recommendation # 5 below.

- consideration of boundaries extension to an existing municipality where approval is being sought for a new municipality adjacent to one which has already been established.

- In addition to classifying municipalities according to Recommendation #5 below, the Department should undertake a periodic review of municipalities to determine whether or not they are exercising the powers granted to them by charter, and if their powers should be continued or revoked.

If the province elects not to proceed with Recommendation 1, then an alternative approach is required. We present here two options which address the problems of inequity in part, although leaving the core of the problem intact.

Either of the following options can be implemented quickly without calling for further study, except through an internal Task Group, using data and reports already available within various departments of government.

Option 1

5. **The Province should replace the present Municipal Grant Program with one which recognizes the substantial differences in the cost of providing basic municipal services in the provincial Capital and in the towns of Summerside and Montague, as compared to the smaller towns, villages, and rural communities.**

   We would suggest a three-tiered grant system based on the following classes of municipalities:

   Class 1. The City of Charlottetown, the Town of Summerside, and the Town of Montague

   Class 2. The remaining towns, and some of the present "villages"

   Class 3. The remaining villages, and some present "CICs"

Villages which have a pro forma character only (i.e. those which provide only one or two services,) should be included among Class 3 municipalities. Communities which are not providing any form of municipal service should forego their charter and be considered in light of a rural area.

An equalization grant formula should then be established for each Class, to be based on three components: actual expenditure levels on designated basic services, population density, and ability to pay as reflected in average per household assessment tax base. At present only the first and third of those components are employed in the PEI grants formula.

The expenditure levels for the Class 2 and 3 municipalities would be based on average expenditure per dwelling unit for a mix of selected services (police, streets, environmental health, recreation and cultural services, and general government), taking into account the costs required to provide those services to an acceptable standard.

The standard, as in the current Nova Scotia municipal grants program, would be based on a periodic review of actual expenditures in selected municipalities, using a standardized chart of accounts mandatory upon all municipalities. The municipalities selected to provide the base data for the provincial standards would be those which are considered by the province to be providing basic services at an acceptable level.

The Province would not provide any municipal services within the Class 2 municipalities. The grants system would provide for the gradual transition to the Class 2 municipalities of all municipal service costs now being borne by the Province.

In addition, the municipal grants would be linked to service levels and performance; thus those municipalities which do not provide one or more of the basic services which are used to establish the grants formula would not have such services included in the calculation for their equalization payment.

Because there are only three municipalities in Class 1 the municipal grants for this Class could not be based on standard expenditures. In those cases the municipal grants would be based on the added costs to those communities of providing services as regional service centres, in excess of the normal per household costs to meet local needs. These would be primarily in the areas of police services, street maintenance, and environmental and health services.

6. **The Province should commit itself to the municipal grants program through legislation rather than through budget policy.** This would be done through enshrining a new grants formula in law, and by committing a minimum percent of provincial property tax revenue to the grants program each year.

This linkage of the property tax and grants program would help dispel the notion of "double taxation" by making clear the purpose of the tax in relation to property services. It would also discourage any future inclination to use the regressive property tax for general revenue purpose, in that increased property tax revenues would have to be shared with the municipalities.

Option 2

Option 2 is the most simple to implement, but while it addresses the inequities affecting the three major urban municipalities it leaves others in place.

7. **Failing the adoption of a new municipal grants program as recommended above, the designated grants for the City and Towns under the present program should be revised to reflect more realistic costing.**

The police services grant to the three major municipalities should be based on the average per capita costs of policing the entire province, including those municipalities in the calculation. In the remaining municipalities which are eligible for this grant, it should be based on the per capita costs cited in the provincial RCMP services contract.

In the case of the street maintenance component, the grant to Summerside and Charlottetown should be based on the average cost to the province of its entire highways rehabilitation and maintenance functions rather than maintenance costs only. The rationale for selecting only those two municipalities for special treatment is that their non-designated streets get greater non-resident usage than in the case of the remaining towns.

8. **In addition to adjusting the designated grants, the Province should begin to phase out of the present policy of providing street maintenance and police services to municipalities in a newly defined Greater Charlottetown and Greater Summerside areas, this to be completed over a five year period.**

The communities from which provincial services would be withdrawn would then be eligible for police and street maintenance grants, as in Recommendation 7 above.

We have not undertaken to define the outer boundaries for the Greater Charlottetown and Greater Summerside areas for purposes of the foregoing. This would be determined through further work internally within the Department, based on ability to pay, by comparison with the towns.

APPENDIX 1

1990 MUNICIPAL TAX RATES ON PRINCE EDWARD ISLAND

APPENDIX 1: MUNICIPAL TAX RATES, 1990

Name of Municipality (City and Towns)	1986 Population	1990 Non-Commerial Tax Rate	1990 Commercial Tax Rate
Summerside	8,020	$1.230	2.460
Charlottetown	15,776	0.920	2.290
Georgetown	729	0.850	1.700
Souris	1,379	0.800	1.700
Parkdale	2,065	0.800	1.400
Montague	1,994	0.770	0.830
Kensington	1,105	0.750	1.500
Borden	514	0.700	1.700
Alberton	1,103	0.600	0.850

Name of Municipality (Villages)	1986 Population	1990 Non-Commercial Tax Rate	1990 Commercial Tax Rate
Tignish	960	0.850	1.100
O'Leary	823	0.780	0.840
Morell	359	0.700	1.210
Sherwood	5,769	0.615	0.925
North Rustico	635	0.600	0.650
Hillsborough Park	996	0.590	0.900
St. Eleanors	3,743	0.560	1.120
Kinkora	256	0.550	0.550
Cornwall	1,894	0.510	0.510
East Royalty	2,039	0.500	0.900
Miscouche	677	0.450	0.900
Mount Stewart	344	0.450	0.450
St. Louis	135	0.450	0.450
Bunbury	1,054	0.430	0.660
Southport	1,321	0.420	0.840
Wellington	405	0.420	0.700
Cardigan	321	0.400	0.400
Crapaud	332	0.400	0.450
Murray Harbour	404	0.400	0.700
Victoria	189	0.400	0.400
Tyne Valley	187	0.350	0.450
Wilmot	1,708	0.350	0.700
West Royalty	2,070	0.340	0.680
Murray River	476	0.340	0.390
St. Peters Bay	265	0.300	0.300
Miminegash	288	0.250	0.500
Hunter River	317	0.160	0.320
Bedeque	158	0.150	0.150
Abrams Village	334	0.120	0.120
Central Bedeque	199	0.100	0.100

Name of Municipality (Community Improvement Council)	1986 Population	1990 Non-Commercial Tax Rate	1990 Commercial Tax Rate
North River	1,732	0.290	0.350
Crossroads	1,765	0.250	0.250
Keppoch-Kinlock	453	0.210	0.210
Northport	253	0.200	0.250
ElliotRiver	996	0.170	0.220
Eastern Kings	1,272	0.150	0.150
Sherbrooke	567	0.130	0.290
Malpeque Bay	1,238	0.120	0.120
Linkletter	305	0.120	0.120
Grand Tracadie	543	0.105	0.105
Bonshaw	186	0.103	0.103
Clyde River	523	0.100	0.100
Carleton Siding	494	0.100	0.100
Brackley	284	0.090	0.160
Miltonvale Park	1,080	0.090	0.200
Brudenell	358	0.085	0.150
Belfast	1,839	0.080	0.160
Hazelbrook	216	0.080	0.080
North Shore	737	0.080	0.080
North Wiltshire	208	0.080	0.080
Alexandra	259	0.075	0.075
Pleasant Grove	194	0.070	0.070
Afton	826	0.070	0.070
Central Kings	563	0.070	0.070
Ellerslie-Bideford	463	0.070	0.070
Kingston	585	0.070	0.070
New Haven-Riverdale	570	0.070	0.070
Meadowbank	258	0.065	0.065
Darlington	78	0.065	0.065
Hampshire	327	0.060	0.060
Lower Montague	450	0.060	0.060

Name of Municipality (Community Improvement Council)	1986 Population	1990 Non-Commercial Tax Rate	1990 Commercial Tax Rate
Greenmount-Montrose	323	0.060	0.050
Souris West	327	0.050	0.050
Annandale-Little Pond-How Baye	352	0.045	0.045
Lady's Slipper	809	0.030	0.030
Lot 11 & Area	780	0.025	0.025
Central Lot 16	122	0.000	0.000
Lorne Valley	91	0.000	0.000
Nail Pond & Skinner's Pond	239	0.000	0.000
Richmond	248	0.000	0.000
St. Felix	359	0.000	0.000

APPENDIX 2

COMPARATIVE TAX BURDENS

MUNICIPAL RESIDENTIAL PROPERTIES ON PEI

TAX BURDEN OF MUNICIPAL RESIDENTIAL PROPERTY TAXES AND WATER SERVICE RATES IN PEI COMMUNITIES

MUNICIPALITY	AVERAGE ASSESSED VALUE OF DWELLING ($)	RESIDENTIAL TAX RATES /$100 ($)	RESIDENTIAL WATER & SEWER RATES PER ANNUN	AVERAGE HOUSEHOLD TAX ($)	AVERAGE HOUSEHOLD INCOME ($)	RESIDENTIAL TAX BURDEN /$1000 OF INCOME	WATER & SEWER BURDEN /$1000 OF INCOME	TOTAL TAXES & WA BURDEN /$1 OF INCOM
PRINCE COUNTY								
SUMMERSIDE	38,703	1.230	201.96	476.05	27,331	17.42	7.39	24
TIGNISH	29,282	0.850	256.00	248.90	20,683	12.03	12.38	24
KENSINGTON	35,287	0.750	164.76	264.65	25,584	10.34	6.44	16
ST. ELEANORS	43,009	0.560	163.92	240.85	29,830	8.07	5.50	13
O'LEARY	33,312	0.630	92.00	209.87	26,321	7.97	3.50	11
ALBERTON	34,670	0.600	83.00	208.02	25,638	8.11	3.24	11
BORDEN	28,135	0.650	31.50	182.88	20,214	9.05	1.56	10
WILMOT	55,355	0.350	145.00	193.74	35,749	5.42	4.06	9
KINKORA	36,491	0.550	72.00	200.70	29,522	6.80	2.44	9
MISCOUCHE	32,885	0.450	60.00	147.98	24,455	6.05	2.45	8
WELLINGTON	32,484	0.420	75.00	136.43	26,905	5.07	2.79	7
TYNE VALLEY	27,019	0.350	110.00	94.57	26,052	3.63	4.22	7
ABRAM'S VILLAGE	29,909	0.120	130.00	35.89	34,196	1.05	3.80	4
ST. LOUIS	19,626	0.450	0.00	88.32	22,690	3.89	0.00	3
TIGNISH SHORE	17,147	0.600	0.00	102.88	26,467	3.89	0.00	3
NORTHPORT	27,785	0.200	0.00	55.57	25,685	2.16	0.00	2
MIMINEGASH	24,827	0.250	0.00	62.07	32,539	1.91	0.00	1.
BEDEQUE	34,570	0.130	0.00	44.94	25,081	1.79	0.00	1.
SHERBROOKE	33,942	0.120	0.00	40.73	26,175	1.56	0.00	1.5
CENTRAL BEDEQUE	32,244	0.100	0.00	32.24	25,081	1.29	0.00	1.2
CARLETON SIDING	31,313	0.100	0.00	31.31	31,446	1.00	0.00	1.0
MALPEQUE BAY	27,419	0.090	0.00	24.68	31,541	0.78	0.00	0.7
ELLERSLIE-BIDEFORD	25,718	0.070	0.00	18.00	23,892	0.75	0.00	0
LINKLETTER	29,350	0.120	0.00	35.22	64,764	0.54	0.00	0
LADY SLIPPER	19,603	0.030	0.00	5.88	26,052	0.23	0.00	0
LOT 11 & AREA	20,774	0.014	0.00	2.91	26,138	0.11	0.00	0
CENTRAL LOT 16	29,105	0.000	0.00	0.00	29,317	0.00	0.00	0
GREENMOUNT-MONTROSE	25,204	0.000	0.00	0.00	22,690	0.00	0.00	0
MAIL POND	26,409	0.000	0.00	0.00	26,467	0.00	0.00	0.
RICHMOND	27,525	0.000	0.00	0.00	20,279	0.00	0.00	0.
ST. FELIX	25,129	0.000	0.00	0.00	22,690	0.00	0.00	0.

Data is based on information from the following sources:

Income data obtained from the 1986 Census reports
Property Tax Assessment data obt ined from the Real Property Tax Records
Water & Sever rate data obtained from the Public Utilities Commission

MUNICIPALITY	AVERAGE ASSESSED VALUE OF DWELLING ($)	RESIDENTIAL TAX RATES /$100 ($)	RESIDENTIAL WATER & SEWER RATES PER ANNUM	AVERAGE HOUSEHOLD TAX ($)	AVERAGE HOUSEHOLD INCOME ($)	RESIDENTIAL TAX BURDEN /$1000 OF INCOME	WATER & SEWER BURDEN /$1000 OF INCOME	TOTAL TAXES & WA BURDEN /$1 OF INCOM
QUEENS COUNTY								
CHARLOTTETOWN	52,637	0.920	139.20	484.26	27,609	17.54	5.04	22
EAST ROYALTY	44,445	0.500	342.00	222.22	27,349	8.13	12.51	20
SHERWOOD	65,898	0.590	381.74	388.80	37,586	10.34	10.16	20
PARKDALE	55,493	0.800	115.68	443.94	31,215	14.22	3.71	17
NORTH RIVER	44,074	0.250	414.00	110.18	31,617	3.48	13.09	16
CORNWALL	49,839	0.510	150.00	254.18	33,131	7.67	4.53	12
BUNBURY	65,552	0.370	191.00	242.54	37,919	6.40	5.04	11
WEST ROYALTY	95,135	0.330	168.00	313.95	42,380	7.41	3.96	11
MOUNT STEWART	26,633	0.350	119.00	93.21	22,873	4.08	5.20	9
NORTH RUSTICO	30,646	0.600	36.00	183.88	25,872	7.11	1.39	8
CRAPAUD	35,544	0.400	67.00	142.17	25,921	5.48	2.58	8
HILLSBOROUGH PARK	38,151	0.500	0.00	190.75	24,552	7.77	0.00	7
SOUTHPORT	65,531	0.420	0.00	275.23	39,944	6.89	0.00	6
VICTORIA	29,751	0.400	0.00	119.00	24,536	4.85	0.00	4
YORK	41,452	0.300	0.00	124.36	30,644	4.06	0.00	4
CROSSROADS	55,791	0.250	0.00	139.48	34,383	4.06	0.00	4
WINSLOE	53,833	0.240	0.00	129.20	32,023	4.03	0.00	4
KEPPOCH-KINLOCK	96,478	0.210	0.00	202.60	50,562	4.01	0.00	4
ELIOT RIVER	63,629	0.170	0.00	108.17	37,285	2.90	0.00	2.
HUNTER RIVER	30,291	0.160	0.00	48.47	25,191	1.92	0.00	1
ALEXANDRA	52,627	0.075	0.00	39.47	28,746	1.37	0.00	1.
UNION ROAD	34,895	0.100	0.00	34.89	27,528	1.27	0.00	1
CLYDE RIVER	38,093	0.104	0.00	39.62	33,371	1.19	0.00	1.
WEST RIVER	34,827	0.090	0.00	31.34	28,450	1.10	0.00	1.
HAZELBROOK	38,762	0.080	0.00	31.03	28,746	1.08	0.00	1.0
NORTH SHORE	37,819	0.080	0.00	30.26	28,450	1.06	0.00	1.0
WARREN GROVE	45,986	0.065	0.00	29.89	28,450	1.05	0.00	1.
AFTON	36,458	0.070	0.00	25.52	24,496	1.04	0.00	1
BONSHAW	28,676	0.108	0.00	30.97	29,649	1.04	0.00	1
MILTONVALE PARK	33,909	0.090	0.00	30.52	30,231	1.01	0.00	1
NEW HAVEN-RIVERDALE	40,204	0.070	0.00	28.14	28,450	0.99	0.00	0.
GRAND TRACADIE	26,686	0.105	0.00	28.02	29,062	0.96	0.00	0.
PLEASANT GROVE	37,349	0.075	0.00	28.01	30,644	0.91	0.00	0.
BELFAST	29,370	0.080	0.00	23.50	27,492	0.85	0.00	0.
KINGSTON	33,115	0.070	0.00	23.18	28,450	0.81	0.00	0.
NORTH WILTSHIRE	28,261	0.080	0.00	22.61	28,450	0.79	0.00	0.
HAMPSHIRE	37,042	0.060	0.00	22.23	28,450	0.78	0.00	0.
MEADOWBANK	47,269	0.065	0.00	30.73	43,483	0.71	0.00	0.
WINSLOE SOUTH	47,020	0.040	0.00	18.81	27,528	0.68	0.00	0.
DARLINGTON	27,323	0.060	0.00	16.39	28,450	0.58	0.00	0.
BRACKLEY	46,412	0.030	0.00	13.92	32,001	0.44	0.00	0.

MUNICIPALITY	AVERAGE ASSESSED VALUE OF DWELLING ($)	RESIDENTIAL TAX RATES /$100 ($)	RESIDENTIAL WATER & SEWER RATES PER ANNUM	AVERAGE HOUSEHOLD TAX ($)	AVERAGE HOUSEHOLD INCOME ($)	RESIDENTIAL TAX BURDEN /$1000 OF INCOME	WATER & SEWER BURDEN /$1000 OF INCOME	TOTAL TAXES & WATER BURDEN /$1000 OF INCOME
KINGS COUNTY								
SOURIS	27,029	0.800	156.36	216.23	22,635	9.55	6.91	16.46
MONTAGUE	39,245	0.770	92.00	302.19	25,949	11.65	3.55	15.19
GEORGETOWN	20,983	0.850	96.00	178.36	19,407	9.19	4.95	14.14
MORELL	32,206	0.700	53.00	225.44	22,708	9.93	2.33	12.25
ST. PETER'S BAY	29,162	0.250	130.00	72.90	19,392	3.76	6.70	10.46
MURRAY HARBOUR	32,302	0.400	0.00	129.21	24,315	5.31	0.00	5.31
MURRAY RIVER	29,911	0.320	0.00	95.71	28,116	3.40	0.00	3.40
CARDIGAN	28,647	0.400	0.00	114.59	36,642	3.13	0.00	3.13
EASTERN KINGS	29,110	0.150	0.00	43.66	30,684	1.42	0.00	1.42
BRUDENELL	40,570	0.080	0.00	32.46	25,677	1.26	0.00	1.26
CENTRAL KINGS	27,619	0.070	0.00	19.33	25,677	0.75	0.00	0.75
LOWER MONTAGUE	33,791	0.050	0.00	16.90	26,048	0.65	0.00	0.65
VALLEYFIELD	32,612	0.045	0.00	14.68	26,048	0.56	0.00	0.56
SOURIS WEST	41,858	0.030	0.00	12.56	25,082	0.50	0.00	0.50
ANNANDALE	25,130	0.045	0.00	11.31	24,962	0.45	0.00	0.45
LORNE VALLEY	23,203	0.000	0.00	0.00	25,677	0.00	0.00	0.00

APPENDIX 3

LIST OF PERSONS INTERVIEWED

LIST OF PERSONS INTERVIEWED

Representatives of City and Towns

Susan Wallace, Alberton
Mayor George Ramsay, Borden
Harry Gaudet, Charlottetown
Mayor Charles Martell, Georgetown
Mayor Gerald A. McCarville, Kensington
Councillor Leonard Munroe, Montague
Arnold Llewellyn, Parkdale
Mildred Ehler, Souris
Nelson Johnston, Summerside

Representatives of Communities

Desmond Arsenault, Abram's Village
Carole Ferguson, Bunbury
Richard Montigny, Cornwall
Kevin McCarville, East Royalty
Sandra Koelbl, Hillsborough
Frank MacKinnon, Morell
Joanne Homans, Sherbrooke
Joseph Coady, Sherwood
Carol Lowther, Southport
Anne Coates, St. Eleanors
Judy Golden, West Royalty
Susan Jeffery, Wilmont

OTHER PERSONS INTERVIEWED

Cecil Murl, Chairman, Federation of PEI Municipalities
Lisa Doyle, Federation of PEI Municipalities
Richard Brown, " "
Frank MacAulay, " "
Hector MacLeod, " "
Mike Bailey, Department of Transportation and Highways
Arthur Currie, Deputy Minister, Department of Justice
Dennis Friesen, Department of Community and Cultural Affairs
Bill Hogan, Public Utilities Commission
Kingsley Lewis, Executive Council
Albert MacDonald, Department of Community and Cultural Affairs
Phil MacDougall, Deputy Minister, Department of Finance
Ron MacNeil, Department of the Environment
John Palmer, Department of Finance
Jim Ramsay, Department of Finance
Alan Rankin, Deputy Minister, Department of Community and Cultural Affairs
Gerry Stewart, Department of the Environment
Charles Thompson, Department of Justice
S/Sgt. Andrew Vos, RCMP - L Division